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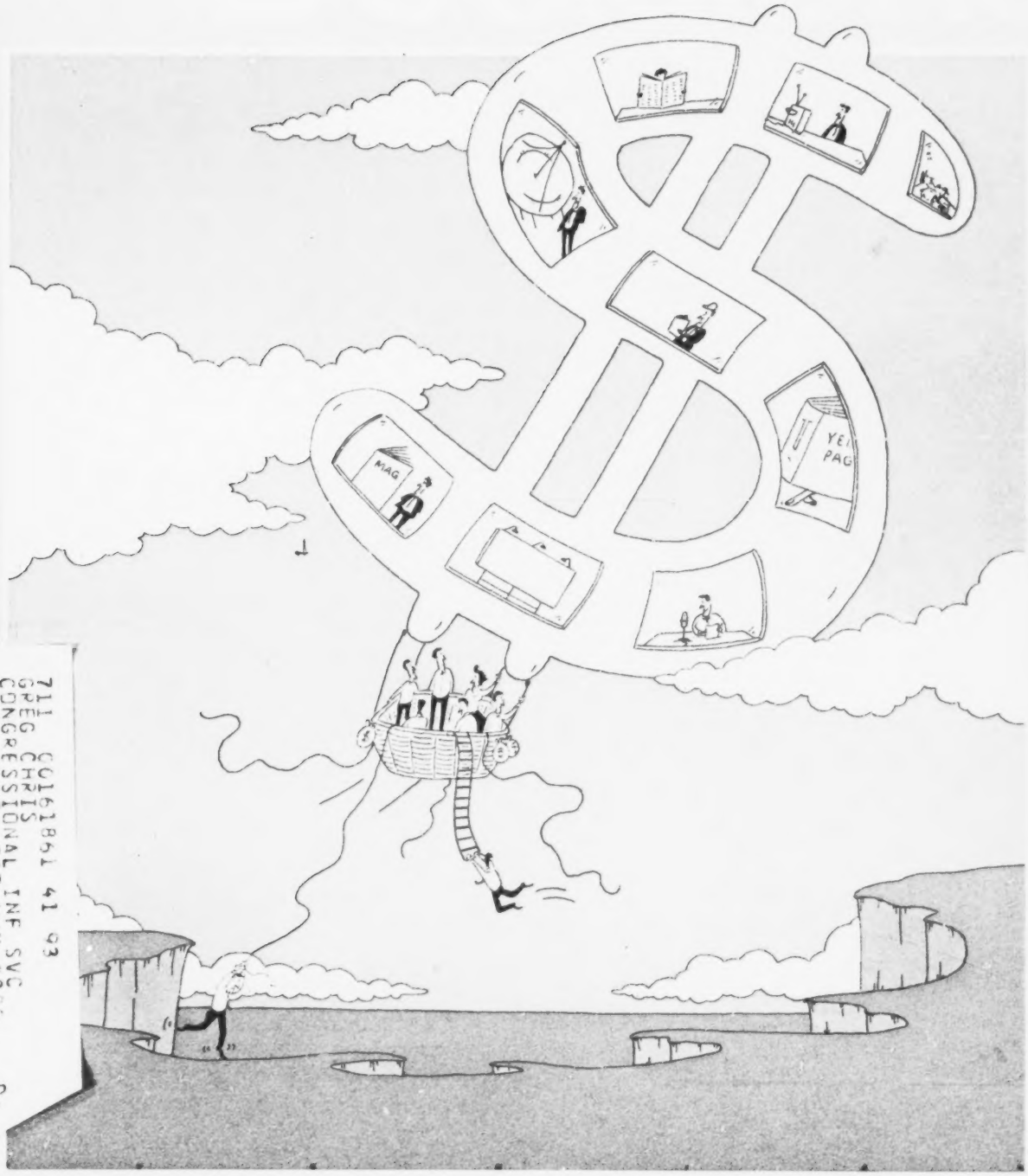

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MEDIA COSTS

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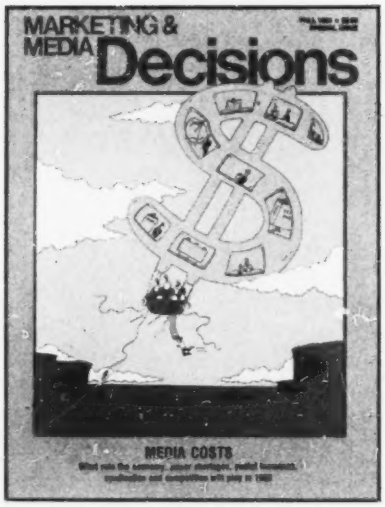

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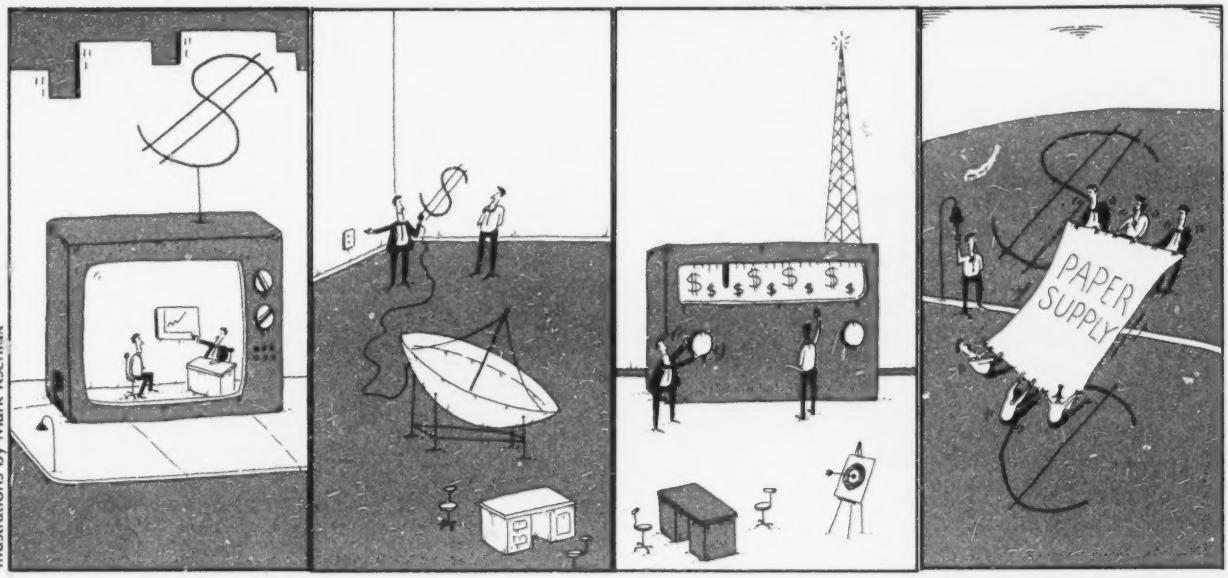


Illustrations by Mark Kseniak

1985's signal: Still green,

This special issue has a clear and important aim: to shed light on where media costs are headed for the upcoming year, and to look into factors affecting prices in each of the major media categories.

To help us in this task, we have culled opinions from the recognized experts in the field. A questionnaire was mailed to media directors around the country, asking them to share — anonymously — their expectations on media costs for the 1985 year, and to contrast it with the actual prices paid in 1984. We received a very gratifying response, the results of which can be viewed on the following tables. Incidentally, this year *Marketing & Media Decisions* has included a full, four-year track record, noting the anticipated and actual cost changes for the years 1980-1984. We hope that you find this revised index helpful.

In addition, we are fortunate this year to have the input of Robert J. Coen, senior vice president of McCann-Erickson, and the unofficial "official scorekeeper" of media economics. Bob has prepared a forecast on media trends covering 1985 through 1988. And once again, we feature the highly regarded cost study compiled by Ted Bates. Also this year, we have inaugurated a section where leading economists and analysts set out their predictions for the nation's economic health, and the impact on media spending.

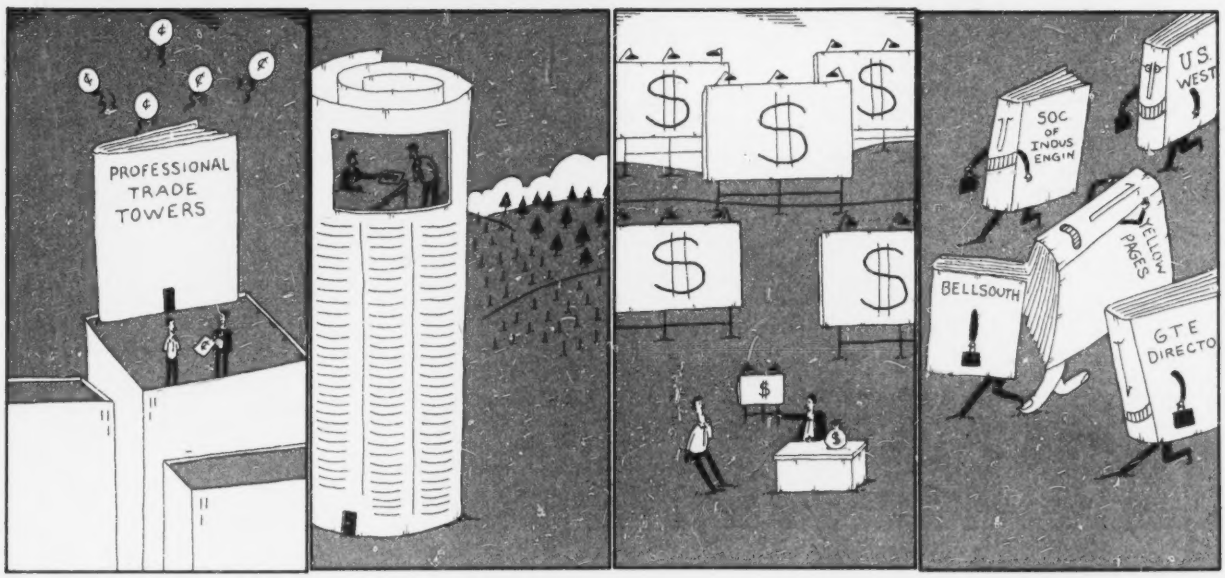
Naturally, we sought out the opinions of advertisers, executives at the various media companies, as well as agency professionals, regarding the why's, how to's, and solutions to higher media costs. We thank you all for sharing your analyses with us.

The consensus of opinion seems to be, that on average, media units will cost 8.9% more in 1985 than they did in 1984. Last year's prediction of a 9.4% average unit gain proved to be close to the mark. Costs, according to our survey, actually rose some 9.5%.

While on average, media prices appear to be moderating, several disturbing indicators are still lurking around to prick optimism. First and foremost, the rate of media increases still outstrips the rise in the Consumer Price Index. Last year, the CPI inched up only about 3%, the lowest increase recorded since 1967, while this year, the inflation barometer is registering at a slightly over 4% level. For 1985, the CPI is expected to hover in the 3.5% to 6% range.

Media costs are commonly believed to have progressed at a faster rate than the overall inflation pace because of several factors. Most notably, many in the media community have sought to pass along their cost-of-doing-business hikes to advertisers. This situation could exist because the economy accelerated sharply, causing advertisers to become bolder with their marketing expenditures, and because the supply and demand situation changed. For instance, tv time is a fixed quantity, and as new categories of advertisers, such as computer, utility and financial services companies, vied with established tv users to buy air time, prices, predictably enough, jumped up. The situation was further aggravated this year by the special demands created by the Olympics, conventions and general elections.

Magazines, too, proved to be forthright in raising rates to advertisers. Most books, fearful of raising subscription



but some flashes of yellow

or newsstand prices to cover operating costs increases — which might have had a deleterious effect on circulation — chose to pass along such upticks to ad buyers. Furthermore, many magazines found themselves in greater demand this year, as they picked up the spillover from tv's limited inventory condition.

Media executives are quick to note that operating costs continue to climb. And the sad fact is, that while plenty of newer, more efficient equipment is available that could help defray some of those costs, uncomfortably high interest rates are deterring companies from making the investments.

Though moderating, media costs still appear to be rising faster than the Consumer Price Index.

What will happen in 1985? Our experts believe that with the advent of a more "normal" media year, costs are likely to cool off further. Certain caveats do exist though. Mindful of each medium's unique characteristics, the cost outlook varies markedly. If there is any commonality at all, it is the thread of worry that binds the magazine, newspaper, out-of-home and direct mail industries. All of these sectors are trying to get a handle on — and seek alternatives to — the rapidly escalating cost of paper. The commodity has been in short supply, due to heavy demand as the economy perks up and various categories compete for the product.

Another worry for the magazine and direct mail businesses are possible rate hikes by the U.S. Postal Service. The Postal Rate Commission is expected to recommend increases in the first, second, and third class mails.

Our features delve into what these operating increases might mean to both buyer and seller. We have attempted to lay out the panopoly of issues which will face each medium during 1985, examine the arguments for and against, as well as illuminate the paths some advertisers are choosing. For example, our television story looks at the widening use of syndication as an effective, cost-controlling tool. The articles on out-of-home, cable, direct marketing and the Yellow Pages discuss the massive changes each industry — and its supporters — are grappling with.

For instance, outdoor operators are suffering from the double whammy of a building boom, which threatens to demolish existing site locations, and spiraling land costs. Too, automotive ownership and traffic patterns now appear to have topped out, causing at least one major company, Foster & Kleiser, to change the way it computes rates for outdoor advertisers.

Meanwhile, the breakup of AT&T has resulted in a wildly different scenario for the Yellow Pages. In addition to the newly-created operating companies fighting for a piece of the directory business, other independent publishers are jumping into action. All sorts of books, for the general audience as well as for highly targeted readers, are popping up, and publishers are blithely crossing over each other's traditional territorial boundaries in pursuit of new markets.

What we have learned — and learned to appreciate

MEDIA COST RISES

	1985 vs. 1984	1984 vs. 1983		1983 vs. 1982		1982 vs. 1981		1981 vs. 1980	
	Anticipated	Actual	Anticipated	Actual	Anticipated	Actual	Anticipated	Actual	Anticipated
Average increases — unit cost									
Nighttime network tv	9.25%	10.6%	+9.6	+10.3%	+10.7%	+9.8%	+11.0	+9%	+11.3%
Daytime network tv	12.71	11.37	+8.1	+8.4	+8.5	+7.0	+8.4	+9	+9.4
Spot tv	7.82	9.78	+10.9	+8.1	+8.5	+8.5	+8.9	+9	+8.2
Network radio	7.27	7.99	+9.0	+7.8	+8.7	+8.0	+8.5	+9	+9.3
Spot radio	7.37	8.66	+8.7	+7.5	+8.4	+7.4	+7.6	+9	+8.4
Consumer mags	8.22	9.12	+9.0	+9.2	+9.0	+9.3	+10.0	+10	+9.4
Nat'l Sunday mags	8.31	9.08	+7.9	+8.1	+8.9	+9.5	+9.1	+9	+8.9
Daily newspapers	8.54	8.96	+9.3	+9.9	+9.6	+9.4	+9.1	+10	+10.2
Outdoor posters	7.35	7.97	+9.8	+8.7	+8.5	+8.7	+8.3	+9	+9.5
Business publications	7.58	7.44	+7.3	+8.0	+8.5	+9.1	+9.2	+9	+8.7

— is that answers to the chronic quandaries over how to deal with change and rapid cost boosts, are not uniform, or easy. Rather the remedies are all individual, and depend heavily upon a buyer's clout, negotiation skills, imagination and will to seek alternative solutions. And in the current marketplace, plenty of choice does exist. Therefore, in today's fractious and competitive business environment, sellers need to address two key areas. Realizing that buyers are demanding value, the media must adequately and realistically make it clear to agencies and their clients, if they are charging more, why the situation exists. Sellers must be prepared to prove to buyers why it is wise for them to spend their ad dollars on that particular network, show, magazine or newspaper, etc. How will this expenditure help the client achieve his desired marketing objective? What research will substantiate the seller's claims, and how well does the salesperson understand the product he is selling, and how it could further the client's business. As Sy Goldis, senior vice president, media services at Doyle Dane Berbach, says, "Today, accountability has become the name of the game." And that is not necessarily a bad thing.

Actual Media Cost Increases — 1984 vs. 1983

Average increases	unit cost	audience	cpm
Nighttime network tv	10.6%	−1.34%	11.47%
Daytime network tv	11.37	−0.10	11.45
Spot tv	9.78	0.425	9.45
Network radio	7.99	0.537	7.48
Spot radio	8.66	0.725	7.93
Consumer mags	9.12	0.413	8.19
Nat'l Sunday mags	9.08	0.817	8.25
Daily newspapers	8.96	0.423	8.18
Outdoor posters	7.97	1.35	6.97
Business publications	7.44	0.475	7.2
Response ranges (%)			
Nighttime network tv	5/16	−4/0	8/16
Daytime network tv	6/16	−5/+5	5/20
Spot tv	5/14	−2/+2	6/13
Network radio	4/12	−1/+3	2/10
Spot radio	6/12	−1/+2	5/11
Consumer mags	7/13.5	−5/+5	5/12
Nat'l Sunday mags	7/15.5	0/+7	7/11
Daily newspapers	7/12	−2/+4	5/12
Outdoor posters	6/10	0/+8	5/9.3
Business publications	6/9.5	0/2.5	6/9

Anticipated Media Cost Rises — 1985 vs. 1984

Average increases	unit	audience	cpm
Nighttime network tv	9.25%	−0.915%	9.79%
Daytime network tv	12.71	−0.005	11.955
Spot tv	7.825	0.225	7.375
Network radio	7.275	0.63	6.92
Spot radio	7.375	0.725	6.95
Consumer mags	8.225	0.51	7.58
Nat'l Sunday mags	8.31	0.785	7.835
Daily newspapers	8.54	0.25	8.335
Outdoor posters	7.35	1.05	6.65
Business publications	7.58	0.395	6.9
Response ranges (%)			
Nighttime network tv	7/14	−4/+1	6/12
Daytime network tv	8/25	−4/+3	7/18
Spot tv	4/10	−3/+2	3/10
Network radio	3.5/11	−1/+3	3/10
Spot radio	3/10	−1/+5	4/9
Consumer mags	6/11	−2/+4	5/10
Nat'l Sunday mags	5/12.25	0/+4	5/10
Daily newspapers	5/11	−2/+3	5/11
Outdoor posters	+3/+10	0/+8	+3/9
Business publications	+5/10	0/+2.5	+5/10

The economy is showing signs of slowing down. The question is, how much?

This past year, the economy was revved. It raced through the recovery as if one foot was left on the gas pedal, and if it didn't slow down, warned the experts, it would drive itself into the ground. Fortunately, many forecasters now agree, a moderate downshifting has begun. The question is how much of a slowdown are we headed for?

As we come off super-heated economic growth, most analysts say that print and broadcast costs should begin to decelerate by 1985. Also by then, the Olympics and the quadrennial round of elections, which had helped boost rates to where they will remain until year's end, will be noticeably absent.

All told, last year's headlines may be gone by the first half of '85, but costs should probably be well under control. The following is a spectrum of opinions from economists and analysts as to how the future may unfold.

The Economists' View

Sandra Shaber, director of consumer economics at Chase Econometrics:

"There is almost no risk that the recovery won't continue through the second half. My real concern is next year," says Shaber. "Part of the economy's strong growth," she explains, "has been due to a huge surge in private credit demand and business borrowing. At the same time, the Treasury is borrowing at an extremely high rate because of the Federal deficit. This huge deficit puts us at the horns of a dilemma. We can pour money into the economy and bring back inflation, or the Fed can drive up interest rates.

"We're forecasting a major slowdown, but not a recession. Chase Econometrics expects that interest rates will rise modestly through the first half of 1985 and then tend to ease. But, it depends on timing. If interest rates rise

more quickly and sharply than we're anticipating, then there's a significant risk of recession."

Charles Lieberman, vice president and senior economist at Shearson Lehman/ American Express:

"The economy has slowed from its excessively rapid pace of expansion and it will continue to moderate in the foreseeable future," says Lieberman. "And, for 1985, unless there is a major new policy initiative, which I doubt, there is not likely to be any drastic change in the economic pace."

This comes as no surprise to the Shearson Lehman/American Express analyst. "After a recession, you get started on an expansion which moves very rapidly until things begin to slow down. It's all a normal part of the business cycle."

Less normal, according to Lieberman, is the balance of trade situation. "The deficit disaster has affected the economy with too high a level of in-

Projections at a Glance

	GNP	Unemployment	Inflation	Interest Rates (T bills, 3 months)
Sandra Shaber				
Second half '84	3.5%	7.8%	4.5%	10.7%
First half '85	1.0	7.3	5.0	13.4
C. Lieberman				
Second half '84	3.5	6.8	5.25	9.75
First half '85	3.5	6.6	5.75	12.0
Albert Sommers				
Second half '84	3.0	6.8	4.0	10.3
First half '85	0	6.8	6.0	9.9
Rosanne Cahn				
Second half '84	5.5	6.9	3.8	10.5
First half '85	5.0	6.3	5.25	11.5
Peter Bernstein				
Second half '84	2.5	7.6	3.5	9.0
First half '85	4.5	7.6	4.5	8.5

Charles Lieberman

Albert Sommers

terest rates. Without it, we could have expected a much stronger private sector." Nevertheless, Lieberman believes the economic turnaround is a solid one and he anticipates strong consumer spending in the latter half of 1984 and 1985.

Albert Sommers, chief economist of The Conference Board:

"We have used up business cycle energy so rapidly that by the fourth quarter of 1984 GNP will have to slow," says Sommers. "We're going to have to pay a price for early spectacular growth rates. GNP will descend to 2%, down from 6.2% in the first quarter of 1984. And, by the first half of 1985, it should reach 0%. Consumer durables," he predicts, "will stop growing in the near term, and housing will continue its downward trend." Adds Sommers, "I am not calling for a recession, I mean slowing."

"The phenomenal first half growth rates in 1984 were a departure from natural experience due to a somewhat screwball environment of large deficits, high interest rates and a strong dollar that provided the right mix for tremendous growth. It was the fastest and strongest recovery on record. But, by the first half of 1985, high interest rates and some of the highest accumulation of inventories will take their toll."

Rosanne Cahn, vice president, senior economist, Goldman Sachs:

"The outlook for real growth for the second half of 1984 remains strong, but will slow in 1985," says Cahn. She adds that basic industry should post a 20% profit gain in 1984, and a 16% gain in 1985.

The growth will spawn a gradual rise in interest rates, but one that should not be viewed pessimistically. "The next leg up in interest rates will be late 1984 and early 1985. It won't be coming from the Fed; it will be a consequence of a strong economy. It would have to rise to greater heights and more rapidly to have a detrimental effect on the economy," says Cahn.

"As for inflation, moderate growth and a strong dollar suggest it will pick up slowly. An increase in capacity utilization, low unemployment and an era of 7% money supply growth all point to higher inflation," says Cahn. "All told, we expect inflation will pick up, but it won't be a blow-off price rise. Instead it will simply grind upward."

Peter L. Bernstein, president, Peter L. Bernstein:

"Like most other people, I believe that the economy will slow down in the second half of 1984," says Bernstein.

His thinking, though, is unlike most others when it comes to 1985. "Everyone says that growth will remain in the 3%-4% area. That's 100% wrong and absolute foolishness," says Bernstein. "There's nothing in the history of business cycles to show six quarters of sustained slow growth. All we need is two or three quarters when people don't borrow much and inventories are worked down, and we'll be ready to expand again."

"As we go through 1985, each quarter will see better and better growth. Business will pick up in the second quarter, running between 6% and 7% real growth.

"Once growth starts, easily postponable goods, such as housing and automobiles and other sensitive consumer goods, will begin to pick up. By the second half of 1985, there will be real excitement."

The Analysts' View

Joseph Fuchs, vice president, media analyst, Kidder Peabody:

"The broadcasting industry is showing a considerable amount of strength, especially in relation to the fourth quarter of last year and earlier this year," says Fuchs. "The Procter and Gambles have better sales and stronger balance sheets. They're able to increase their competitiveness with their branded consumer merchandise."

Strength has translated into higher prices. "The network's estimated revenue gain for 1984 should rise 16% contrasted to 13% last year," says Fuchs. "The strength is due to the recovery as well as the Olympics and election. In 1985, with no special events, we're looking at a 10%-11% rate of gain, which is a solid, middle of the road figure. At 10%-11%, networks will be able to realize gains while keeping costs to advertisers at reasonable, affordable levels. The economy will still be strong in the first half of '85, but lower inflation will help keep costs down."

Barbara Russell, vice president, media analyst, Prudential-Bache Securities:

"Even though the up-front market for the '85 season looks so good, the networks have said their intention is to hold costs of programing down, in part because of uncertainty about scatter time," says Russell.

"The three-network up-front market was very successful, totaling some $2.2 billion in bookings. Scatter will still run ahead of up-front, but not like it used to. Usually, it runs about 18%-20% higher than up-front. Next year it will be half of that." One reason, says Russell, is, "consumer advertisers may be reluctant to pay up. Advertisers are concerned about audience erosion as households zap through ads with their video cassette recorders. Also, advertisers are becoming smarter as to how to allocate their budgets wisely. They're going into syndication, and, however slowly, they're still moving into cable."

Patrick O'Donnell, vice president, and publishing analyst, Donaldson Lufkin & Jenrette:

"We are seeing a continuation of the best pricing for the best niche products," says O'Donnell. "Products like The New York *Times*, *The Wall Street Journal* and The Washington *Post* will see rate increases of 7.5% to 9.5% in 1985, while the rest of the industry will be up about 7%. Unlike the East BeJesus *Bugle*, they are going to an audience of high quality households at the upper end of the income scale. Another terrific vehicle for direct response is *USA Today*. It's the most interesting event going on in print. One and a quarter million people pay 25¢ a day for it. It's a good buy for advertisers."

"In magazines, rates will be up 6% next year. That represents some falloff because there are no Olympics or elections. Anyway, magazines tend to have less flexibility than newspapers because they have more competition. The Philadelphia *Inquirer* doesn't have *U.S. News* and *Newsweek*, the way *Time* does," says O'Donnell.

As for the price of pre-print," he says, "it will be difficult to raise prices because of the competition from direct mail, which has grown a very rapid 25%."

John Morton, newspaper analyst, Lynch Jones & Ryan:

"We expect newspaper advertising costs to go up an average of 8% in 1984 because newspapers decided to keep their revenue growth at about 11%," says Morton. "It's always a juggling act between revenue and rates. By next year, when newspapers will probably be posting a 9% revenue increase, we expect a rate rise of only 6% to 8%. With the slowdown in the economy in 1985, newspapers won't be able to get away with anything higher."

Some papers can buck the trend. "Newspapers that have rising circulation, like The New York *Times* and *The Wall Street Journal* will always be more aggressive," he says.

Direct mail and penny savers, says Morton, are a "troublesome factor that will continue to influence ROP, but are not yet a primary competitor, particularly because most papers have begun to step up zoning. These days, with computerization, you can zone around specific shopping centers if you want and pay less than full circulation prices. Advertisers can look forward to increasing sophistication in the zoning area. It's a matter of efficiency."

John Morton

Ken Noble

Ken Noble, first vice president, media analyst, Paine Webber:

"A good buy in print is *USA Today*," declares Noble. "It's not really kicked out yet because it falls between the cracks. It's not a local newspaper, even though it's daily. It's not a magazine, even though it has features. And it's not broadcast, even though it uses color. Right now, it doesn't have enough ad pages, but my guess is that it will be effective. We'll hear it discussed and see it read."

As for the rest of print, Noble doesn't see anything dramatic happening. He thinks national print prices will slow to 10%. "There are some things, like penny savers, which are eroding newspapers, but they are not all that significant. Penny savers are like a pack of little dogs barking at the heels of larger ones. They're there, but their impact is not that great. A bigger concern is third class direct mail, but chances are when the Post Office announces rate increases, their effect will also be diminished."

Postal rates too, can affect magazine rates, but Noble believes that increased cost will to into the cover price instead of ad rates.

Media cost-per-thousand trends 1975-1984

Media inflation cools, says Ted Bates' Media Information and Analysis Division.

INTRODUCTION

Ted Bates Advertising/New York has, for some time, prepared an annual media cost trend analysis. This particular study, with trend purposes in mind, tracks cost efficiencies (CPM's) and advertising expenditures for nine specific media elements for the decade from 1975 through 1984. A review of the ten-year track in measured economic indicators (consumer price index-CPI/gross national product-GNP) serves as a benchmark for our analysis.

1983

Along with the U.S. economic recovery experienced in 1983, there was also excellent progress on the inflationary front with the annual inflationary increase dropping almost 50% from the previous year to a 3% rate, the lowest annual inflationary increase since 1967. However, despite this "disinflation" in the economy, media CPM's have been slow to react. When examining past years, media CPM's usually seem to lag behind inflationary decreases. Not until 1983 do we see CPM increases responding to the decline in the inflation rate. However, despite their decline in 1983, CPM increases still exceeded the inflation rate. (Exhibit I.)

Most CPM increases in 1983 were of a single digit nature with the exception of only two media — network radio and newspapers — which experienced a 10% increase. Daytime network television experienced one of the lowest increases in CPM (5%) while spot television saw a slightly higher rise — 8%. Evening network television saw a sharp decline from its excessive 1982 CPM increase to a more moderate 7%. Magazines and outdoor both rose 6%. Outdoor's 6% rise was the first single digit increase for the medium in several years. Finally, national supplements had one of the lowest CPM increases at 5%.

1984

The Conference Board anticipates the inflation rate in 1984 to double — currently projecting an annual 6% rise in the CPI. It appears that media

Continued on page 30

EXHIBIT I

Percent Average Yearly Increase in CPM

	1982	1983	1984*
Broadcast			
Day Net TV	9	5	8
Eve Net TV	24	7	11
Spot TV	9	8	9
Net Radio	7	10	10
Spot Radio	6	7	7
Print			
Magazines	11	6	7
Supplements	12	5	7
Newspapers	10	10	7
Outdoor			
Posters	10	6	8
CPI	6	3	6

* Projections

EXHIBIT II

Percent Average Yearly Increase in CPM

	1976-1979	1980-1981	1982
Broadcast			
Day Net TV	17	9	9
Eve Net TV	14	10	24
Spot TV	10	6	9
Net Radio	8	8	7
Spot Radio	8	7	6
Print			
Magazines	7	9	11
Supplements	8	10	12
Newspapers	9	9	10
Outdoor			
Posters	9	10	10
CPI	8	11	6

EXHIBIT III

Total Advertising Volume and Gross National Product

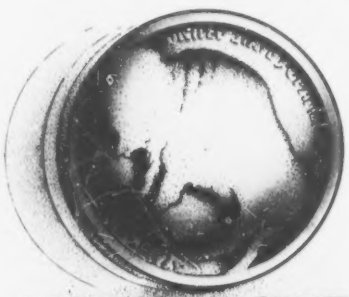
Year	Ad Volume Millions	Ad Volume Yr. to Yr. % Change	GNP Billions	GNP Yr. to Yr. % Change	Ad Volume As % of GNP
1975	$27,900	+5	$1,549.2	+8	1.80
1976	33,300	+19	1,718.0	+11	1.94
1977	37,440	+12	1,918.3	+12	1.95
1978	43,330	+16	2,163.9	+13	2.00
1979	48,780	+13	2,417.8	+12	2.02
1980	53,550	+10	2,633.1	+9	2.03
1981	60,430	+13	2,937.7	+12	2.06
1982	66,580	+10	3,059.3	+4	2.18
1983	75,060	+13	3,297.0	+8	2.27
1984 (est.)	85,400	+14	3,622.0	+10	2.36

EXHIBIT IV

National Advertising Volume as Percent of Total Advertising

	Total (millions)	National (millions)	Percent of Total
1975	$27,900	$ 7,242	26
1976	33,300	9,017	27
1977	37,440	10,271	27
1978	43,330	11,794	27
1979	48,780	12,757	26
1980	53,550	14,837	28
1981	60,430	16,625	28
1982	66,580	18,375	28
1983	75,060	20,540	27
1984 (est.)	85,400	23,175	27

CPM's in general will follow suit, though these increases should only be moderate. While media costs were slow to react to a decline in the inflation rate, this does not appear to be the case when an increase in the inflation rate is predicted. Advertisers viewing 1984 in a more positive light could take the position that with inflation expected to increase substantially, inflationary-adjusted "real" CPM increases should be moderate or nonexistent.



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Surprising
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Source: Scarborough Research, 1983. Represented nationally by Sawyer-Ferguson-Walker Company, Inc.

Network radio and spot radio should increase at the same rate as they did in '83 -- 10% and 7% respectively. Magazines and supplements should both post slightly higher CPM increases with a 7% rise. Newspapers will decline slightly to 7%, and outdoor will increase modestly — 8%. Daytime network television should see an 8% increase while evening network television is expected to come in at a slightly higher 11% increase.

Many media seers believe the year will be "atypical" with regard to television costs due to two key factors:

The rise in CPM's abated after 1976-1979, but still lagged the drop in CPI

the Olympics and the November elections. These two factors combined might have some effect on network costs, but the effect, if any, should be minimal. In fact, when examining the effect the Olympics and the elections have had on media costs in the past, no apparent or consistent trend emerges.

HISTORICAL BACKGROUND

In past trend articles, we characterized 1976-79 as the "boom years" which serves as the immediate background to the '80s. During this period there generally was a dramatic increase

EXHIBIT V

COST-PER-THOUSAND TRENDS

Year	Day Net TV	Even Net TV	Spot TV	Mag	News	Supp	Spot Radio	Net Radio	Outdoor	CPI
1975	100	100	100	100	100	100	100	100	100	100
1976	125	108	125	102	110	103	112	110	106	105
1977	161	136	131	111	119	122	122	119	115	112
1978	174	149	131	122	129	124	129	129	127	122
1979	182	167	143	131	139	134	135	135	142	135
1980	203	190	154	147	153	147	145	145	157	153
1981	218	203	162	163	173	163	155	155	173	169
1982	238	251	176	181	191	183	164	166	191	179
1983	250	269	190	193	210	192	176	182	202	185
1984 (est)	270	298	208	206	225	205	188	200	219	196

in CPM's across all media, especially among the television elements analyzed. During the period immediately following — 1980-81 — the rate of media CPM increases abated somewhat from the highs of the "boom years," specifically in the all-important television area, even though the annual inflation rate increases in the '80-'81 period averaged 11% yearly. Despite this surge to a double-digit inflation rate, it was gratifying to note that none of the media elements' analyzed cost-per-thousand increases exceeded the CPI level (Exhibit II).

In 1982 the CPI dropped substantially, increasing only 6% for the year. Despite this precipitous decline in the CPI, the annual media CPM increases "lagged" behind this trend. In fact, the CPM percentage increases, across media, remained very similar to those experienced in the '80-'81 period. The notable exception was in prime time television where CPM's moved up an alarming 24%. Thus with inflationary pressure subsiding and the media CPM increases holding fast, or increasing substantially in the case of prime time, the spread between media CPM and CPI increases widened substantially.

VOLUME PERFORMANCE

The growth in advertising volume has exceeded that of the GNP for almost every year since 1976 and is expected to continue to do so in 1984 (Exhibit III). The one exception is 1977 when the growth in the two measures was identical. Advertising volume grew during 1980-81 at an annual average rate of 12%, slightly higher than the 10% growth in the GNP. In 1982, the increase in advertising volume (10%) was more than double that of the increase in the GNP (4%). This is the most dramatic difference between the two measures in the decade, and it is perhaps indicative of the sluggish economy of 1982.

Advertising volume increased 13% in 1983 while the increase in the GNP doubled to 8%. This doubling of the GNP clearly indicated that the economy was on an improving course. Advertising volume as a percentage of the GNP has been steadily increasing since 1975, reaching 2.27% in 1983 and an estimated 2.36% in 1984, levels that have not been seen since the '60's. Despite total advertising expenditures increasing close to 200% in the decade, the perecentage of national expenditures of the total has stabilized in the 26% to 28% range for the last ten years.

Deborah Ellis, supervisor MIAD

EXHIBIT VI

NATIONAL EXPENDITURE TREND

Year	Net TV	Spot TV	Mag	News/Supp	Radio	Outdoor
1975	100	100	100	100	100	100
1976	124	133	122	121	120	115
1977	150	136	148	132	132	132
1978	172	161	177	139	148	140
1979	199	177	200	160	160	161
1980	222	201	215	177	185	165
1981	242	230	241	204	215	190
1982	269	269	253	221	235	211
1983	303	297	287	242	254	236

FOOTNOTE: Tables report trends in index form, with 1975, the base year, indexed at 100. These estimates are based on unit costs of 30 seconds for TV and Network Radio, 60 seconds for Spot Radio, one page four-color for Magazines, milline black and white for Newspapers, one page four color for Supplements, and 100 showing for Outdoor through 1981, 1982-84 based on increases in 50 showing. Audience levels and CPM's are based on women 18+ for Day Network, total persons 2+ for Evening Network; TV households for Spot TV, persons 12+ for Radio; circulation for Magazines, Newspapers and Supplements; and total population for Outdoor. Sources for audience information are: Network and Spot TV — A. C. Nielsen; Network Radio — "RADAR"; Spot Radio — Arbitron; Magazines — Magazine Publishers Association; Newspapers — Newspaper Advertising Bureau; Supplements — Standard Rate and Data; Outdoor — Outdoor Bureau and estimates. Figures for 1984 are Ted Bates' estimates.

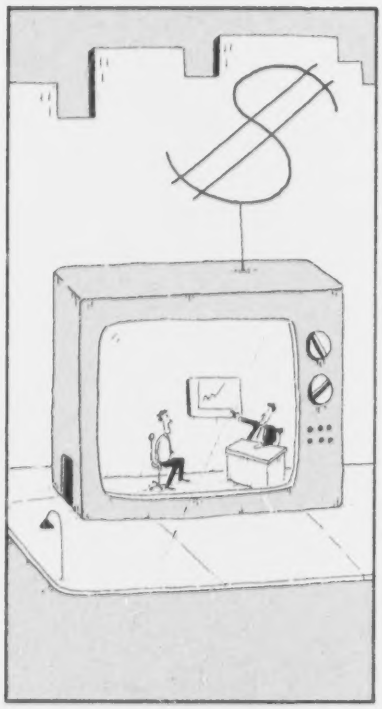
NOTE regarding CPI: CPI is based on increases in yearly average rather than December to December as supplied by the Conference Board.

Tv costs expected to rise reflecting strong demand for medium

It would be reasonable to expect that next year's tv marketplace might represent a return to some sort of normalcy, at least when compared with this year's "quadrennial curse," a marketplace hexed with tightened inventory resulting from the Olympics and elections.

But to project just how high tv costs will rise in 1985 is a science not yet perfected and perhaps as futile as trying to predict where the Dow will be at year's end. Nonetheless, agency media directors are going through the annual exercise of anticipating media cost increases. These are guesstimates, to some extent, but educated guesses backed up with data gathered on where tv costs have been; where they appear to be going; an analysis of ongoing activities in scatter, spot and syndication markets; who's spending what and where; and what impact the economy will have on business conditions.

According to *Decisions*' annual media cost survey, agencies are projecting CPM's for prime time network will rise 9.7% next year, daytime CPMs will jump 11.9% and spot tv CPMs will increase 7.4%.



Network

Looking back, up-front network buys for the 1984-85 tv season took off early and moved briskly. Daytime — which broke first — posted double-digit rate increases ranging from 12%-25%, a consequence of near panic-like conditions preceding the up-front market when many advertisers found themselves squeezed out of the second quarter daytime scatter market. As a result, advertisers seemed to stampede to daytime upfront to secure future positions.

At press time, fourth quarter scatter was just beginning to take off, exhibiting continued high demand for daytime, fringe and news.

But some advertisers who took a closer look at their brand needs, did not get socked with double-digit increases for up-front daytime last spring.

Campbell's Soup, for example, which puts more than 90% of its total tv budget into upfront, says it did very well in daytime, posting only single digit increases. "That's because we did a very careful analysis of our brand's needs, both on a demographic and geographic basis," explains George Mahrlig, director of media services, Campbell Soup. "We then looked at the cost of various network mixes that would satisfy our goals. Our target audience skews a little older, so we tailored our buys to fit best with the networks, buying CBS and NBC daytime, because ABC skews younger." Mahrlig laughingly acknowledges that "we netted out in single digit increases, partially because of the nature of our needs, not totally because we were such excellent negotiators."

In a sense, the Campbell brands have a distinct advantage as the company's fiscal year corresponds with the network up-front buying cycle. Mahrlig, too, advises brand managers to have

their plans finalized early if they want a certain quoted rate, and if they come in later, they'll pay more. "If you snooze you lose," he cautions, "and the brand suffers the consequences."

The prime time up-front market for the 1984-85 tv season posted increases ranging from 8%-10%. Those moderate increases, some agency media heads reason, indicated that "resistance on behalf of advertisers to pay high prime time costs appears to have caught up with the networks."

But the up-front market was attractive enough to lure back some players who had been conspicuously absent from the event, such as American Airlines, and to lure new players into the market like Apple Computer, says one network executive.

In step with what most media directors are predicting for 1985, Alison Danzberger, vice president and director of broadcast operations at Ketchum, predicts "another year of less than 10% in prime time network increases." But Danzberger cautions that it's hard to predict what will happen because "right now things are a little out of whack." She explains that "people are slow to respond to changes in pricing . . . it's a function of the planning cycle and when the buying actually takes place."

All in all, an estimated $2.5 billion exchanged hands in the 1984-85 upfront network market, compared with last year's up-front volume of $1.9 billion. All signs, at least for the moment, seem to point to a continuation of existing market trends — heavy demand for daytime, news and fringe in the fourth quarter scatter market. And an overall healthy economy should continue to trigger new product development and the accompanying brisk ad spending.

Naturally, the networks anticipate that the majority of those ad dollars allocated to tv will wind up in their coffers. "Network tv is still the most efficient way to reach the mass audience," espouses one network executive. NBC's senior vice president of sales Robert Blackmore believes that advertisers are becoming more sophisticated in using all elements of the media mix. "Advertisers' use of media is like an orchestra," likens Blackmore. "They're listening better, maybe because of the lessons learned in the past recession and the subsequent shakeout. Now they're using each instrument — each network daypart, barter, spot tv, radio, cable, everything — much more carefully, and are more aware of how all the instruments should work together. And of course network tv is the most efficient," he adds.

Network Tv Ad Revenues — 1984
(Percent change over 1983)

	ABC	CBS	NBC	TOTAL
Jan.	+9	+17	−8	+6
Feb.	+84	+13	+15	+40
Mar.	+2	+27	+18	+15
First Quarter	+32	+19	+6	+19
Apr.	+15	+31	+20	+22
May	+13	+19	+25	+19
First 5 months	+24	+21	+13	+20

Spot TV Ad Revenue Changes 1984
(Percent change over 1983)

January	+13
February	+8
March	+10
First Quarter	+10
April	+14
May	+16
First 5 Months	+12

Source: McCann-Erickson *Insidor's Report*

Over at ABC, Jake Keever, vice president of sales reports that third quarter scatter is moving at a moderate pace, coming off the Olympics. But fourth quarter, because of the strong upfront is 90% sold out at ABC, with daytime, news and NFL football all in "excellent shape."

Looking ahead to 1985, Keever reports that again, because of the strength of the past upfront buys, first quarter 1985 inventory is 85% sold out, with second quarter 1985 doing about the same. Third quarter 1985 is 90% sold out "because advertisers really heavied up."

Analyzing last season's upfront Keever says its strength is not so much an attribute of the number of new players, but the fact that existing advertisers put larger percentages of their ad budgets into upfront.

While some advertisers feel that any network cost increases "are too much," the networks defend their prices and point to their ongoing efforts for controlling over-the-line-costs — program production.

ABC Entertainment's president Tony Thomopoulos assures that steps are being taken and have been taken to keep programing production costs down. Says Thomopoulos, "With the exception of the aberration from the Olympics, ABC has managed to so far keep programing costs at 1983 prices."

Last November, in an effort to control programing costs, ABC announced its policy to hold the line at 1983 spending levels. While the Hollywood production community has been grumbling over the network's cost policy, "they do acknowledge the need to better control costs, for their own interest as well," Thomopoulos explains.

All three networks, indeed, have stepped up efforts to wriggle out of the hold of the Hollywood production communitiy. More programing is becoming an in-house affair, such as ABC's miniseries *War and Remembrance* and *Texas*, as well as NBC's production of one of its new fall entries, *Punky Brewster*.

Spot tv

"As the movement of the prime interest rate goes — and I believe it has stabilized — so move companies like Procter & Gamble and General Foods with their new product outlays," states one very bullish seller, Gordon Hastings, president of Katz television. Hastings envisions that all three networks will be strong in 1985 ad revenues, with more equality as NBC begins to catch up with the others. And the spot tv marketplace will be strong as well, performing as the networks do, Hastings advises, projecting that spot tv spending will be up in excess of 15% in 1985.

He projects CPM's for spot tv rising

Top 10 Television Advertisers — 1983
(Thousands)

	Spot TV	Network TV	Total TV
1. The Procter & Gamble Co.	$229,251.8	$366,663.1	$595,914.9
2. General Foods Corp.	73,018.4	170,064.5	243,082.9
3. General Motors Corp.	25,672.2	201,350.4	227,022.6
4. General Mills, Inc.	112,981.7	100,250.3	213,232.0
5. Ford Motor Co.	38,130.3	172,308.1	210,438.4
6. PepsiCo, Inc.	121,862.7	73,955.2	195,817.9
7. American Home Pdts. Corp.	31,896.8	161,442.2	193,339.0
8. American Tel. & Tel. Co.	40,497.9	146,603.8	187,101.7
9. McDonald's Corp.	105,024.4	80,930.9	185,955.3
10. Philip Morris, Inc.	50,368.9	128,266.1	178,635.0

Note: Investments classified as "Retail/Local" by BAR (i.e. General Foods' investments for Burger Chef, investments by Sears Roebuck & Co., McDonald's Corp., etc.) are included above.

Source: Television Bureau of Advertising from analysis of Broadcast Advertisers Reports data.

10-15% depending on the market, with some, like Dallas, stronger than others. Dallas, he says, with a new independent tv station in the market, has increased the amount of inventory in the area by 25%. He expects that stations will be very aggressive particularly in news and fringe, as a result.

However, over at D'Arcy MacManus Masius, Sharron Lalik, head of spot broadcast for the agency, provides a different tv scenario.

Lalik predicts that after years of double digit spot tv inflation, the 1985 national rate increases "will be well within a single digit figure."

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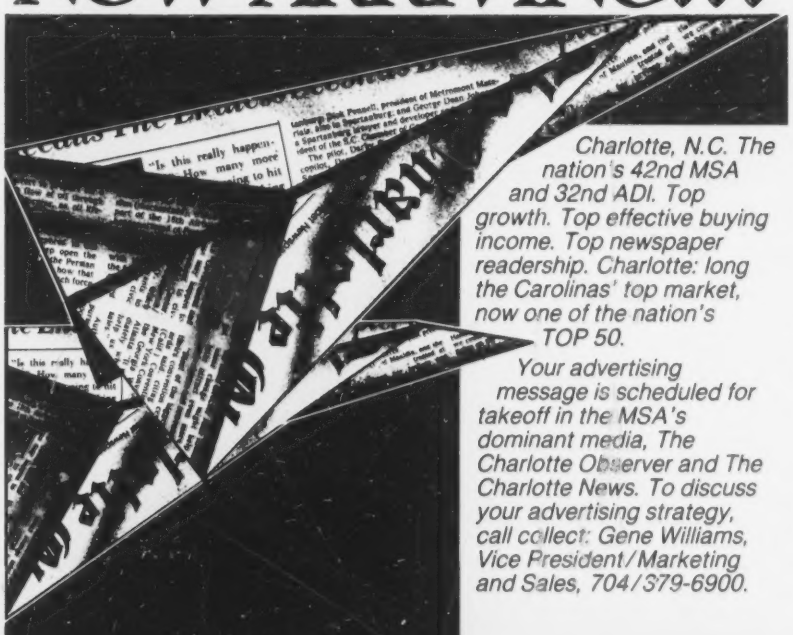

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Your advertising message is scheduled for takeoff in the MSA's dominant media, The Charlotte Observer and The Charlotte News. To discuss your advertising strategy, call collect: Gene Williams, Vice President/Marketing and Sales, 704/379-6900.

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By daypart, DMM, projects the following increases over 1984: prime, +7%; early news, +6%; early fringe, +4%; late news, +9%; late fringe, +6%, daytime +6% and prime access, +7%. Lalik's projections for 1985 are based on what went on in 1984; where the economy seems to be going in 1985; plus the heavier numbers going into syndication.

Lalik says advertisers can get the best bang for their spot tv bucks during the first quarter 1985, since the agency predicts in its quarter-by-quarter forecasts that fourth quarter spot rates will be 37% higher than first quarter costs. In its spot tv 1985 cost index, DMM forecasts first quarter at 100; second quarter at 130; third quarter at 111 and fourth quarter at 137. So if an advertiser spends $100,000 in the first quarter, he would have to invest $137,000 in the fourth quarter for the equivalent weight.

Needless to say, DMM is recommending that clients include first quarter inventory with longer term commitments which will result in more productive schedules.

Providing yet another perspective on next year's spot tv market, Wally Schwartz, president of John Blair Television, takes the middle road. Schwartz projects that the year as a whole will come in at about 8%-9% above last year. "Coming off the quadrennial cycle will bring a return to normal," he says.

Of course, he cautions, "a lot depends on who gets elected, and if Reagan does, there will be a strong vote of confidence from advertisers." Schwartz sees a year ahead filled with brisk competition to network and spot tv from barter and cable. He projects billings of $5.5 billion in national spot for 1985, up from a projected $4.8 billion in 1984. "It's a very healthy industry," he concludes, "and advertisers aren't mad at us like they were in 1976, and consequently took it out on us in 1977."

Syndication

Wrestling down projections on cost increases for barter syndication is a lit-

Continued on page 42

tle tricky, involving a program by a program analysis.

But overall, Henry Siegal, chairman of LBS Communciations (just renamed from Lexington Broadcast Services last month to reflect its new expansion into production), says that costs will go up very little, about 5%-6%. "Of course, it will vary property by property," he says. Siegal adds that this year, *Fame*, for example, posted a 9% increase, but that LBS does not expect much next year in the way of increase.

Siegel reports that the syndication market looks good for '85, and that advertising revenue will go beyond $500 million with 80% of the inventory already sold out for next year.

Over at Camelot Entertainment, the national syndication arm for King-World, Rick Levy, its president, says that it's hard to predict cost increases, but "whatever they are, they will result in pricing below 20%-30% of what the networks would charge for the equivalent daypart." Levy explains that "a low rated afternoon property would cost about 30% below the equivalent network daypart, while something like *Wheel of Fortune*, now the number one rated syndicated program, would be about 20% below the equivalent network daypart."

Tv Set Ownership at 98% . . . and Viewing is Heavy

	Avg. Viewing Time per TV Home per day
TOTAL U.S.	7:38
TERRITORY	
Northeast	7:35
East Central	8:18
West Central	7:19
South	7:47
Pacific	7:11
EDUCATION OF HEAD OF HOUSE	
Under 4 Yrs. H.S.	8:20
4 Yrs. H.S.	7:54
1+ Yrs. College	6:50
4+ Yrs. College	6:28
HOUSEHOLD SIZE	
1	5:53
2	6:52
3+	9:01
4+	9:28

Source: A. C. Nielsen, Feb. '84

Levy points to a new direction in syndication today. "Three or four years ago, agencies began to plan syndication as part of their up-front buy. In more recent years, they would go into syndication before their network up-front buys for certain established shows like *Entertainment Tonight* or *Solid Gold*."

The battle back then, he observes, "was to try to get advertisers to buy us, and now they do. The thrust today is getting station clearances and programing."

In total, Levy pegs cost increases for syndication increasing in "the high single digits, and lower for indies than affiliates."

One broadcast media buyer believes cost increases won't rise dramatically for syndication in 1985, reasoning that "they're really in no position to get it yet. While syndication has made its impact, and is used extensively by advertisers, it's still not totally accepted by everybody," believes this buyer.

But Campbell Soup's Mahrlig is a user, and says he sees syndication as providing some cost leverage with the networks. He looks at it as a daypart of national tv — vehicles such as *He Man* and *Masters of the Universe* would be considered kid's daytime; *Hour Magazine* would be considered daytime and *People's Court*, nighttime.

"We assign costs on rating points and allow brands to plan syndication — they submit key market lists and we check to see how the program is doing in that market," tells Mahrlig. "If a show is doing a 6 nationally, and is not delivering that in the key markets, the brand will use something else."

"All of these machinations help us avoid the inevitable price increases that come with a $2.5 billion upfront," he concludes.

Marianne Paskowski

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in Pennsylvania's 3rd richest market

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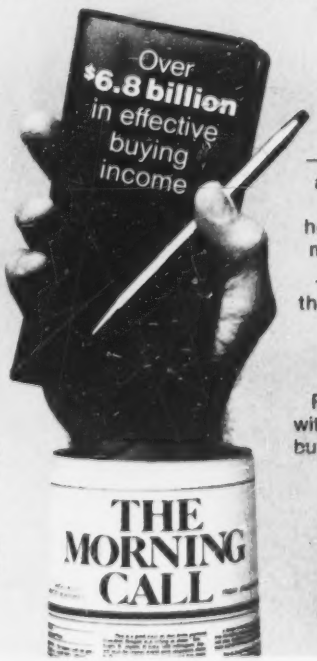
—57% daily coverage of 495,000 MSA adults



—66% Sunday coverage

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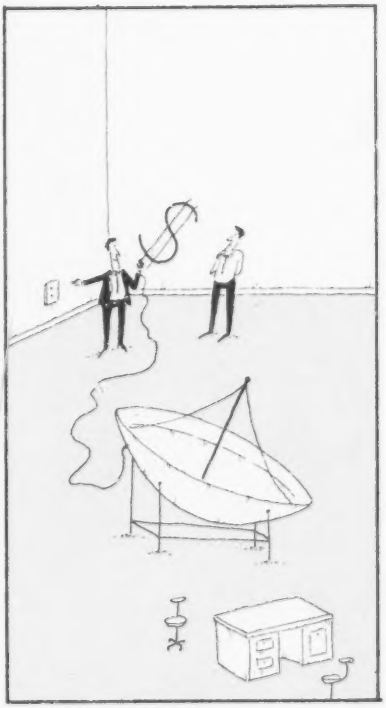
Costs up but cable is still a good buy

Agencies and analysts look at what is precipitating cable cost hikes.

With so many variables to account for, getting a handle on cable costs is a slippery task. Depending upon the network, percentages and rationales concerning cost osciliate widely. What has emerged, however, is a consensus that advertising on cable is, overall, more expensive than it was last year, and is likely to continue to rise; CPMs on average are edging up minimally; and local advertising is fast becoming a profitable business for both advertiser and cable operator.

Costs for advertising on cable are chiefly reflective of two trends. One, the price for ad time is rising on broadcast networks, while that viewership is eroding; and two, the cable universe is maturing, resulting in increased subscribers and more networks rated by Nielsen. These developments are precipitating ad rate hikes on cable ranging between 10%-30% — averaging 20% — and CPM increases which average 2%-5%, although in some instances as high as 10%-15%.

Ad prices on cable are inching up as demand builds. Cable's viewership and ratings are steadily improving, while broadcast ratings dropped to 4% this June. Considering broadcast's heavy re-run schedule, such a rating drop was not unexpected. However, in July broadcast ratings tumbled an additional 16% in share and average audience



from the same time last year. Cable, on the other hand, more than held its own that month. Ad revenues were up $18 million over the first quarter to $78 million. Some shows saw dramatic ratings increase. For instance, *Cartoon Express* on *USA* saw its ratings hike from .4 in 1983 to 2.1 this year.

Broadcast erosion and severe underdelivery is making cable a particularly attractive buy. Broadcast network prime time share tumbled from an 89 share in 1979 to a 77 share in 1983. In cable homes, the rate of erosion over the past three years was three times as great as that in non-cable homes, 15% versus 5%. Last year, the audience for total day part awarded a 71% share to broadcast networks; 17% to independents; 3% to public; and 14% to cable. If cable is broken out separately, a different pattern emerges. In noncable homes, the 71% share for network affiliates goes up to 80%; independents to 18%; public, 4%; and cable 2%. In cable households, broadcast is down below a 60% share — a 21 point swing. Independents are down to 14%, while cable takes a full 30% share.

A look at prime time program ratings present an even more glum picture of broadcast underdelivery in cable homes. Prime time broadcast programs yielded an average rating of 16.2 last year. In noncable homes broadcast overdelivered 5%. In cable homes, broadcast underdelivered 9%, moving up to 10% in pay households — a differential of 15%.

Cable is also leading independents for the first time, in network share, dispelling the myth that independents are benefitting the most from broadcast network erosion. CAB stats indicate that in the second quarter of this year,

independents totaled up a 13% share; cable origination took in a share of 14%, while pay attracted 12%. During that period, independents experienced a 13% decrease in viewership, while cable origination viewing increased 29%; and pay by 5%. Overall, ad-supported cable experienced an average 23% increase in viewing in the second quarter 1984 over the same period last year — up 132 minutes per week. Viewing of independents in cable households was down 13% from last year.

"Audiences are turning to cable for its broader menu of programs," says CAB director of marketing, Radford Stone. "People are learning to use cable and that is significantly altering broadcast network viewing habits and ad dollar allocation going to cable."

Yet despite the positive growth of cable, advertisers are alloting the medium only 85% of the ad dollars its ratings would suggest. Cable is getting only 5.6% of what Paul Kagan Associates estimate to be $7.8 billion spent for ad time on the three major broadcast networks. "If spending on cable were commensurate with its 12 share for the first six months of this year, then agencies should ideally be directing 12% of their broadcast network budget to cable," asserts Stone. Agency and advertiser reticence is due to still pervasive unfamiliarity with cable viewing patterns, he says. "Our goal is to get the message out to agency planners that cable should be considered an antidote to broadcast network erosion."

As cable adds an average 400,000 subscribers a month (current penetration stands at 42.5% of tv-equipped households, or 37,700,000 subscribers), more cable nets become eligible for Nielsen monitoring. This development will account for higher costs to advertisers, agree most cable networks. Of the eight cable nets currently metered, most say their pricing will increase as ratings climb. *CNN* claims its pricing is dictated by broadcast network increases but will also reflect its own higher ratings. John Barbarea, senior vice president, sales, says costs will go up 30%, and CPMs will increase 8%-10% for prime time and financial programing. Prime is now a $5 CPM, or $1,500 for :30; financial a $10 CPM, at $3,000 for a :30. These increases compensate for a 10% decrease in daytime CPMs. "As ratings and households increase, prices will go up," says Barbarea. "We can justify a higher CPM if the show rates it."

10-YEAR PROJECTIONS OF CABLE TV NETWORK ADVERTISING

Year	1 All TV Homes (mil)	x	2 Avg. HUT %	=	3 Viewing Homes (mil)	x	4 Bcast Share %	=	5 Bcast Viewing Homes (mil)	6 Cable Ad Homes (mil)	x	7 Avg. Cable HUT %	=	8 Viewing Homes (mil)	x	9 Cable Viewing Share %	=	10 Actual Cable Viewing (mil)	11 Cable % Bcast Viewing %	12 Cable % Bcast Revenue %	13 Bcast Netwk. Revenue (bil)	14 Cable Netwk. Revenue (bil)	15 % Ch.
1980	77	x	50	=	38.5	x	76	=	29.26	8	x	50	=	4.0	x	5	=	0.20	0.68	1.06	$4.70	$0.050	n/a
1981	78	x	50	=	39	x	74	=	28.86	12	x	50	=	6.0	x	7	=	0.42	1.46	1.98	5.30	0.105	+111%
1982	80	x	50	=	40	x	72	=	28.80	16	x	50	=	8.0	x	10	=	0.80	2.78	3.31	5.90	0.195	+ 86
1983	83	x	50	=	41.5	x	70	=	29.05	20	x	50	=	10.0	x	15	=	1.50	5.16	4.39	6.90	0.303	+ 55
1984	85	x	50	=	42.5	x	69	=	29.33	24	x	50	=	12.0	x	16	=	1.92	6.55	5.57	7.80	0.434	+ 43
1985	87	x	50	=	43.5	x	68	=	29.58	28	x	50	=	14.0	x	17	=	2.38	8.05	6.84	8.74	0.597	+ 38
1986	89	x	50	=	44.5	x	66	=	29.37	31	x	50	=	15.5	x	18	=	2.79	9.50	8.07	9.78	0.790	+ 32
1987	90	x	50	=	45	x	64	=	28.80	34	x	50	=	17.0	x	19	=	3.23	11.22	9.53	10.96	1.045	+ 32
1988	91	x	50	=	45.5	x	63	=	28.67	37	x	50	=	18.5	x	20	=	3.70	12.91	10.97	12.27	1.347	+ 29
1989	92	x	50	=	46	x	62	=	28.52	39	x	50	=	19.5	x	21	=	4.10	14.36	12.20	13.75	1.678	+ 25
1990	94	x	50	=	47	x	60	=	28.20	41	x	50	=	20.5	x	22	=	4.51	15.99	13.59	15.40	2.093	+ 25
1991	95	x	50	=	47.5	x	60	=	28.50	43	x	50	=	21.5	x	23	=	4.95	17.35	14.75	17.24	2.543	+ 22
1992	96	x	50	=	48	x	60	=	28.80	45	x	50	=	22.5	x	24	=	5.40	18.75	15.94	19.31	3.078	+ 21
1993	97	x	50	=	48.5	x	60	=	29.10	47	x	50	=	23.5	x	25	=	5.88	20.19	17.16	21.63	3.712	+ 21

1- Estimated U.S. TV households.
2- PKA estimate of day-long Homes Using Television, assuming 60% prime time, 30% 7 a.m.-1 a.m., skewed upward from day-long average because ad dollars are concentrated in heavier viewing times.
3- Homes actually viewing television.
4- PKA estimate of broadcast networks' share in all U.S. homes using television.
5- U.S. homes actually viewing broadcast network television during an average quarter-hour (skewed toward prime time).
6- PKA estimate of average cable homes accessed by majority of cable TV ad-supported networks.
7- PKA estimate of cable homes using television (as in column 2).
8- Cable network homes actually viewing television.
9- PKA estimate of average viewing commanded by cable TV networks, as % of all viewing in cable homes shown in column 8.
10- Actual viewing homes available to cable TV network advertisers in a given quarter-hour (skewed toward prime time).
11- Actual cable viewing as % of broadcast network viewing (column 10 divided by column 5).
12- PKA estimate of ad spending on cable networks as % of broadcast network ad spending (85% of col. 11, starting in 1983).
13- PKA estimate of revenue of ABC-CBS-NBC.
14- PKA estimate of revenue of cable TV ad-supported networks
15- PKA estimate of annual increase in revenue of cable TV ad-supported networks.

Source. Paul Kagan Associates, Inc., CABLE TV ADVERTISING NEWSLETTER.

MARKETING & MEDIA DECISIONS SCATTER COST ESTIMATES OF KEY CABLE NETWORKS

Cable Network	Subscribers* 5/31	Daytime			Primetime entertainment			Primetime sports			Kids programing			Young adults programing			News and information		
		Rating /	HH (000)	Est. CPM	Est. $:30	Rating /	HH (000)	Est. CPM	Est. $:30	Rating /	HH (000)	Est. CPM	Est. $:30	Rating /	HH (000)	Est. CPM	Est. $:30	Rating /	HH (000)	Est. CPM
ESPN	32,700,000									**1.5/491		$4.00	$2000							
WTBS	31,006,000	**M/F 2.5/775 S/S 5.0/1550		$2.00 $2.00	$1500 $3000	**4.0/1240		$3.75	$4500	**3.0/930		$3.50	$3200	2.2/682		$2.00	$1300	.9/279		$3.00	$900
CNN	26,816,000	.7/182		$2.00	$360	.7/182		$4.50	$900									**.7/182		$2.00	$360
USA	24,300,000	M/F .6/146 S/S 1.3/316		$2.50 $2.50	$400 $800	1.8/437		$4.00	$1800	2.0/486		$4.00	$2000	4.0/972		$2.50	$2400	1.1/267		$3.50	$1000	1.9/462		$3.50	$1650
CBN	23,000,000	**M/F 1.7/391 S/S 4.0/920		$1.75 $1.75	$650 $1600	1.8/414		$3.25	$1350					.8/184		$2.00	$350				
MTV	21,800,000																	**1.5/327		$4.25	$1400
LIFETIME	20,000,000	.4/80		$2.00	$160	M/F .6/120 S/S .5/120		$4.25 $3.75	$500 $450												
NICKELODEON	19,300,000													**0.8/154		$2.25	$4.00				
FNN	16,800,000	.3/50		$2.00	$100	1.1/185		$4.00	$750	S/S 0/500		$5.00	$2700								
WEATHER CHANNEL (not yet on Nielsen)	12,300,000	.6/73		$4.00	$325	.8/98		$4.00	$400												

*Source: Paul Kagan Associates Inc., Carmel, CA.
**Leads the category and sets the pricing standard
Note: Rates are negotiable based on type of programing purchased

CBN director of sales, John Fernandez, claims cable ad costs and CPMs parallel broadcast network increases. "Cable follows in the after flow of the three big networks. But cable is still attractive to advertisers," he asserts. "Cable's CPMs are a third lower than broadcast's and cable gets 30% national coverage currently. A lot of broadcast waste is eliminated since cable delivers prime demographics."

Roger Werner, executive vice president of marketing for *ESPN*, cites the network's delivery of target demographics in justifying rate hikes. Werner estimates his spot prices will go up 15%-20%, perhaps to 25%, depending upon the program. CPMs will jump 5%-10%. "We sell men," comments Werner, "and men with a higher demographic profile, at that, for much less than the CPM of broadcast tv." *ESPN* delivers a primarily male viewership for a $4.20 CPM, compared to broadcast's $6.40.

USA Network's Dan Lawlor, vice president regional sales, plans to tie everything into an efficiency increase of about 5%-7% as *USA*'s subscriber base increases 25% a year. "Cable remains a very efficient buy considering that the 20%-30% subscriber base increase on most networks reflects precisely the homes advertisers are trying to reach," he insists.

Among those awaiting Nielsen monitoring by fourth quarter, both the *Weather Channel* and *FNN* expect to charge advertisers for higher ratings although they hope to keep CPMs approximating existing rates. *Black Entertainment Television* expects ad costs to climb upwards in October as program hours and subscribers increase. Rates will nearly double from $450 for a :30, at a current $4.00 CPM which includes one bonus spot per purchase, to $800 with two bonus spot offerings per buy. Janis Thomas, BET's vice president, sales, says that CPMs will rise at most 5%-7%.

Agencies generally estimate ad cost increases based on broadcast costs and the individual cable net's subscriber and rating status. Regarding what agencies estimate to be a $2-$10 million increase in their cable spending,

Dancer Fitzgerald Sample's vice president, media director Beverly O'Malley says it's hard to isolate what is a reaction to subscriber growth and what is simply inflation. However, increases out of choice reflect confidence in cable subscriber growth, she notes. "The cost is still attractive and clients' excellent experience with cable is prompting renewals. Cable is getting to the point where it will start nibbling away at other media budgets."

Ron Kaatz, U.S. director of media concepts for J. Walter Thompson, says cable ad costs are in line with network tv trends but are still comparatively low. In constructing a number of scenarios for cable ad pricing, Kaatz speculates that under a high network price scheme and few cable avails, the new medium would raise prices; at low net-

A CONVERSATION WITH RON KAATZ

Marc Pokempner

Ron Kaatz is U.S. director of media concepts, J. Walter Thompson, Chicago.

Q. *On what does JWT base its decision to buy cable?*
A. Cable is evaluated in the context of all media buys and is viewed in that framework: can the cable network satisfy client needs and reach the targeted audience? Cable can help in terms of equalizing for network deficiencies while targeting against specific audiences.

Q. *Has cable fulfilled its promise to deliver to narrowcasted audiences?*
A. Yes, but I like to use the term 'targeted' rather than 'narrowcasted' which implies too limited an audience. Cable has the advantage of appealing to both the masses and special interests, as do magazines. A parallel would be *WTBS* and *CBN* as 'generally editorial,' to use a magazine phrase. Special interests would be satisfied by *MTV*, *ESPN*, *The Weather Channel*, for example.

Q. *When is it more advantageous for a client to select a scatter buy or sponsorship of a program?*
A. The main difference between scatter and sponsorship is the intensity of viewer communication you are seeking. Through sponsorship you get breadth of impression. Through scatter you get breadth of exposure. It depends which of the values of cable the client wants to exploit. For instance, scatter can satisfy such values of cable as: conveyance of an ad message in a compatible environment such as placement on an *MTV* for young adult targeting; a high frequency of exposure generally available only through radio; the ability to zero in on small towns where the product or service dealers are located; and fewer time constraints than on broadcast networks, allowing more time to tell a story. Sponsorship offers the advertiser an opportunity to get a real identity; to give product details appealing to a highly targeted audience; and to develop direct response options.

Q. *How receptive are networks to client-produced programs?*
A . Very. There's a lot more client-furnished or sponsored programing than there was three years ago. Initially, it was approached experimentally and now clients are doing it more to meet specific marketing needs. Cable networks welcome high quality programing that clients supply. Rates are negotiable to make cable buying easier for the client and agency. Over 20 of our clients including Kodak, Quaker Oats, Ford and Kraft figure in cable buys as part of their routine media planning.

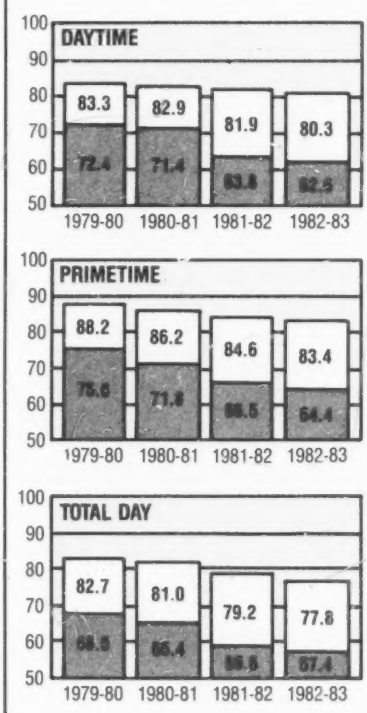
Q. *Is audience measurement data responding to agency demands?*
A. The problem in local markets won't be solved for a long time because the question is who will pay for that research. But nationally there's no dearth of audience measurement considering the dollars involved in cable vs. network. Eight cable networks are on Nielsen meters and as subscribership hits the 13 million mark for the other networks, they'll be eligible for monitoring.

Q. *What will determine which cable networks will survive?*
A. The survivors will be the ones who can control their costs while having that basic viewership appeal. The four BAR-measured networks: *CNN*, *ESPN*, *USA* and WTBS, will make it long-term as will *The Weather Channel*, *Black Entertainment Network*, *CBN*, and *MTV* which is making money hand over fist. *The Nashville Network*, *FNN* and *Nickelodeon* look promising.

work prices and few cable avails, the wired medium would hold prices. At low network prices and many cable avails, what he terms the "classic bad situation," the buyer dictates pricing for cable ads. The current situation is one of high network prices and many cable avails, during which cable will keep below network cost but will raise prices proportionately, or a stride less.

DECLINING BROADCAST NETWORK AFFILIATE SHARES

Trends in broadcast network affiliate shares– cable and non-cable households



For the total day broadcast affiliate shares are declining almost 3 times more quickly in cable than non-cable households.

Source: Cable Advertising Bureau

CPMs, he claims, will hover at an average $5 as household growth continues to keep that cost relatively low.

BBDO senior vice president of network programing, Bill Croasdale, says costs will continue to climb as the number of cable subscribers grow, but cautions that there will be a shakeout. The cable network survivors will, however, be more solvent financially. Advertisers, he says, are now recognizing the potential for cable as the research on the medium grows. Croasdale projects a 2%-4% increase in CPMs and only a 2%-3% increase to buy or renew cable ads.

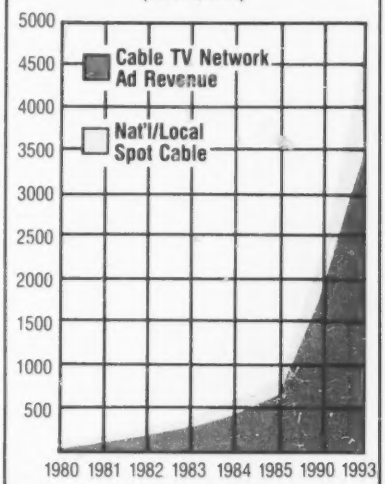
Agency planners are just beginning to take to heart the lucrative local advertising marketplace. Indeed, local avails are proving to be the mainstay for several MSOs and the principal allure for new entrants into cable. More than 900 systems reaching 45% of the cable universe now sell local video advertising; last year 700 systems sold locally, reaching 35% of that universe. Kagan analysts estimate local system cable revenue this year will be $800 million, up 59% over last year's estimated $50.4 million and growing steadily at 50%-60% per year over the next two or three years. By 1994, local sales could generate $1.3 billion in revenue, claim Kagan analysts.

CAB's Stone observes that "Satellite networks used to be the main buy. Now the trend is to use local origination and local avails since they are attractive to local retailers." CAB expects 50% of subscribers nationwide will be recipients of local advertising next year.

MSOs, who in 1982 were complaining that local ads sales were reducing their profit margins, are changing their tune. Thirty-nine top MSOs, averaged $4.31 per subscriber in local ad dollars for 1983. That per subscriber figure is expected to reach $5.50 this year when MSOs could gross an estimated $80-$90 million in local ad revenue. For Group W and Colony Communications, selling local avails is an average 40% margin business. "The cable ad business is at the local level," says Thom McKinney, Group W's vice president of ad sales. "The advantage of local is low cost targeting of local demographics." Citing a 258% growth over last year in local ad sales for its systems overall, McKinney claims 95%-99% of Group W's business is now at the local level. "In some systems margins are as high as 67%." Colony Communications president Jack Clifford says his local ad margins are 40% minimum. "Local avails provide options in specific targeting for local businesses. It's a smorgasborg of opportunities."

Cable reps like CNI and New England Cable Rep note that retailers are finally recognizing local avail as potential revenue generators. "Business on the local level is up 100% from last year," says CNI president John Kramer. CNI, the largest local and national

ADVERTISING REVENUE GROWTH ESTIMATES
($000,000)



Source: Cable Advertising Bureau

sales rep, has exclusive contracts with 14 major cities representing 4.7 million subscribers, or 12% of the cable universe. Kramer says determining the cost of local ads depends on the size of the cable system, the advertiser schedules, and what the cable operator has established as a marketplace price — generally a mean average of the print, radio, and broadcast tv rates. Charges may vary from a low 30¢ CPM to $2-$3 CPM. Agencies generally like to get a 40¢-80¢ CPM per sub, claims New England Cable Rep president, Bob Williams. Pricing is drifting upward as demand increases, Williams observes. He also notes a trend toward more up-front buying as a way to get a good rate. By Paul Kagan Associates' tally, local spot cable averaged $1.70 last year and could hit $2.53 this year. The Kagan firm projects $12 per average cable subscriber in local ad billings for 1990.

CABLE ADVERTISING'S 10 LARGEST ADVERTISERS
1983 vs. 1982

	1983	1982	% Change
1. Anheuser-Busch	$15,760,850	$ 9,231,604	+ 70.7%
2. Procter & Gamble	15,172,193	6,778,997	+123.8
3. General Foods	11,290,331	10,241,955	+ 10.2
4. General Mills	10,258,792	4,143,143	+147.6
5. Bristol-Myers	6,505,484	4,276,420	+ 52.1
6. Time Inc.	5,517,672	5,160,262	+ 6.9
7. Toyota Motor Sales	5,247,582	2,920,278	+ 79.7
8. Ford Motor Co.	5,087,044	2,791,909	+ 82.2
9. General Motors	4,549,257	3,834,603	+ 18.6
10. American Home Products	4,387,171	4,431,471	– 1.0

Source: Paul Kagan Associates Inc. chart, based on BAR data

In his attempt at determining a common denominator for buying cable, Greg Blaine, director of new communications technology for Foote, Cone & Belding, Chicago, found that no commonality exists. Rather, buying cable was not simply a rational decision based solely on CPMs or penetration. Agency policy as to the cable buy, he says, relies heavily on the attitude of the cable decision maker. "The decision to buy cable is both rational and emotional."

Blaine notes that the "rational" process takes into account such tangibles as audience measurement data, demographic profiles, reach, and other quantifiable elements. But complicating matters is the fact that cable buying is devoid of the security offered by broadcast networks which deliver the comfort of mass audience. "Cable, however, offers a demographically enriched audience which is pre-selected and highly interested in the program's subject content, therefore potentially more attentive to related ads," notes Blaine. "Some of the waste normally incurred in a broadcast buy is eliminated. As cable becomes more mainlined into agencies' planning, the decision to buy cable will be less variable."

Forty-five national advertisers are already spending more than $1 million each per year on that medium. In 1983, the top 25 cable advertisers boosted their spending 47%, placing a total of $119.5 million on *USA*, *ESPN*, *CNN*, and *WTBS*. Based on BAR's 1983 stats, Anheuser-Busch led the pack, investing $15.8 million in cable last year, up 71% over 1982. But when factoring in the other ad-supported cable nets, P&G comes out as cable's biggest supporter. Last year, the company spent $15.2 million on the four BAR networks alone, which represented a 142% increase over 1982. Yet cable got only 3% of the consumer product king's $50 million dollar allotment to broadcast tv.

Nevertheless, cable nets are apparently benefitting from advertisers' optimism concerning the medium.

- *FNN*, the fastest growing network, signed 36 national advertisers last year, and expects to double its ad revenue to $8 million by this move.
- *Spanish International Network (SIN)* reports its ad revenues are up 40% over last year's $45 million.
- *The Weather Channel* claims ad sales are up 400% over last year, reporting advertiser involvement is up 100% last year.
- *CBN Cable Network* cites a 65% increase in ratings over the year and projects $35-$40 million in ad revenues this year.

Continued on page 117

This coupon entitles you to thousands of free consumers in Syracuse

Why? Because your ads reach so much extra spending power in Syracuse that it's like getting thousands of extra consumers free. For example, Syracusans spend twice the average amount per household on scotch,* 28% more than average on food.** And their median household income is $2,835 above average.** Let us show you why The Syracuse Newspapers are the best way to reach this profitable market. Send this coupon today.

*1983 Liquor Marketing Handbook
**1983 S & MM Survey of Buying Power

Syracuse. More than you bargain for.

Mail to Charles Vella, Syracuse Newspapers, Syracuse, NY 13221 or call 315-470-2089.

Name

Address

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State Zip

MMD 9/84

The Syracuse Newspapers

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Represented Nationally by Newhouse Newspapers

RADIO

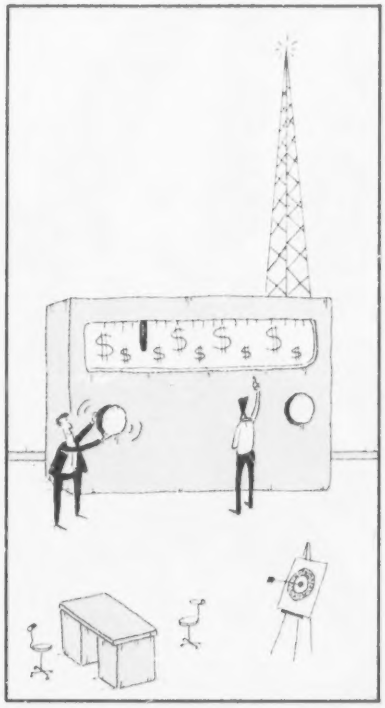
Radio sets its dial to strong sales and more networks

Revenues, particularly local and retail, are up smartly. So are prices.

The radio industry is enjoying a good year. Advertising revenues are up strongly, while operating costs at many of the U.S.'s 8,200 commercial radio stations are moderating through the use of new computer technology. However, the slowdown in station costs is not translating into lower costs for radio buyers; rather, as demand for radio time increases, so do prices. And, barring an economic downturn, the outlook for radio continues to look like more of the same in 1985. "We have more demand inventory than ever before, and we're no longer in the dollar a holler mode," declares Kevin Cox, vice president of network sales for NBC Radio.

The Radio Advertising Bureau projected a 15% increase in revenues for the medium last December, but has now upped that estimate to 15.5%. For the first five months of 1984, ad revenues for network and national spot radio posted gains of 6.2% and 12.1%, respectively. And the bellwether of sales — local and retail radio — jumped a very healthy 17.1% during the first four months of the year.

Although the traditionally heavy radio users such as the food products, beer, ale and wine, as well as travel and shipping industries, are holding up well this year, major new users have really helped push the medium's revenues upward. The computer industry, for example, increased its spending on radio some 236% in the first quarter of 1984 over the previous year's period. Similarly, the financial services sector upped their radio expenditures by 86.5%. Frequently, these advertisers could be found on news, news/talk and classical music stations looking to target market to the executive and business audience which often tunes in to such programing fare.



Targetability is one of radio's key selling points. "Radio can deliver and find anything you [an advertiser] wants," enthuses Cox. As an example, he cites New York City "where there are a dozen formats alone for the coveted 25 to 54 year-old market." One interesting trend designed to enhance the targeting aspect of the medium continued to gather steam during 1984. A number of rep firms have consolidated in an effort to strengthen the narrowcasting factors that unwired networks offer. Following the merger of Hiller, Newmark, Wechsler and Howard; Major Market Radio; Weiss & Powell and McGavren Guild under the Interep Co. umbrella over the past three years, 1984 has seen Blair purchase RAR, while Katz bought Christal Co. and RKO Radio Sales. All told, Interep now encompasses over 1,000 stations. The group's billings are expected to be up 12% to 15% this year, according to Ellen Hulleberg, executive vice president. She also notes that the buys really picked up steam in the second quarter, making over 20% monthly gains over the previous year.

As radio rolls along, prices are going up. For example, the average 60-second spot commercial at McGavren Guild rose to $77 in 1984, from $69

last year. The average cost for a 60-second spot on an unwired network, such as Internet, was $71, as of mid-1984. Over at NBC Radio, the cost per point for a 30-second ad hit $1,500 versus $1,100 three years ago. Cox says he doesn't see any abatement in sight for the 10% to 12% ad cost increases occurring the past few years. The culprits, he claims, are escalating engineering and programing costs.

But Daniel Flamberg, senior vice president of communications for the RAB, disagrees. He feels that radio's operating costs have decreased. "Labor, one of the biggest costs in running a radio operation, has been reduced considerably," he states. "The computer," he continues, "is now capable of doing a variety of workloads, including engineering work."

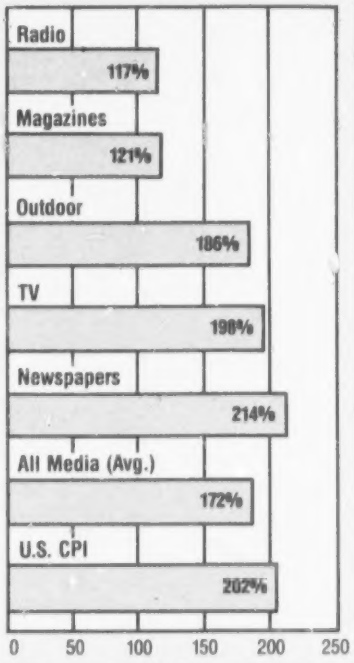
While he concedes that there "has been some friction with unions over this issue, they have been realistic," believes Flamberg. "And the resultant savings in terms of salaries, fringe benefits, pensions, material and other costs have been considerable."

Apparently, though, not all unions are so "realistic." For instance, when Bob Mounty, executive vice president of NBC Radio, was asked about the new technologies impact on costs, he declined to comment in view of the network's ongoing union negotiations.

Though costs may be going up, radio's CPM can still be viewed as a good buy when compared to other media. In just five years, network and syndication growth has grown from just a handful of 10 to today's total of approximately 70, which means an advertiser's reach can be strengthened meaningfully. Using 1967 as a base year for CPI, radio's CPM has skipped ahead some 117%, compared to tv's 198% leap and newspaper's 214% skyrocket, figures the RAB. The CPI, meanwhile, has shot up 202%.

RADIO HAS SLOWEST COST GROWTH SINCE 1967

Cost-Per-Thousand Increase 1967*–1983



*1967 is the base year for Consumer Price Index

Source: Radio Advertising Bureau, Inc.

Neil Weed, vice president in charge of sales for Mutual Radio Network, likes to note the difference in costs between the tv and radio medium. An advertiser looking to place a 30-second commercial on a Notre Dame football game — which Mutual carries — would pay $3,000 on radio. The same spot on national broadcast costs more than $60,000, he says.

What kind of value or response can an advertiser get from putting money into radio rather than tv? In addition to cheaper rates, replies Weed, "we offer consistent listeners." His point is that Mutual only offers one game per week while the tv network may offer several games, and rotating teams. Theoretically, since Mutual only broadcasts Notre Dame football, advertisers can be confident that the hard-core fan will be tuning in each week to note the team's progress, rather than flipping dials around the set to see what other event is being aired. However, Weed, alluding to the glut of sports fare available, and some less than spectacular ratings as a result, offers a caveat: "We do find that advertisers are less willing to pay a high premium for sports programing, which has been exacerbated by spiraling costs for these games."

Some products find that radio has definitely helped their sales. One of the success stories has been Molson beer. To stretch its limited budget, the import has spent 65% of its ad dollars in radio — a move which has paid off. The Canadian brew has become the

TOP 10 SPOT RADIO ADVERTISERS
1983 Expenditures (millions)

1. Anheuser-Busch, Inc.	$40.675
2. General Motors Corp.	29.079
3. American Telephone & Telegraph	27.949
4. Coors, Adolph Brewing Co.	21.578
5. Miller Brewing Co.	19.214
6. Chrysler Corp.	16.651
7. Delta Air Lines Inc.	15.309
8. United Airlines	14.636
9. Van Munching & Co. (Heineken)	14.603
10. PepsiCo, Inc.	14.205

Source: Radio Advertising Bureau, Inc.

TOP 10 NETWORK RADIO ADVERTISERS
1983 Expenditures (millions)

1. Jeffrey Martin, Inc.	$21.731
2. Sears, Roebuck & Co.	10.629
3. Cotter & Co. (True Value Hardware)	9.648
4. American Telephone & Telegraph Co.	9.512
5. General Motors Corp.	9.411
6. Dow Jones & Co.	8.611
7. Warner-Lambert Co.	7.823
8. Campbell Soup Co.	7.429
9. Ford Motor Co.	7.186
10. Anheuser-Busch, Inc.	6.914

A CONVERSATION WITH DENNIS McGUIRE

Lawrence Barns

Dennis McGuire, radio supervisor at Cunningham & Walsh, stands out as a champion of radio.

Q. *Where do you stand on Arbitrends? Stations are resisting the extra costs of the new monthly reports, but many agency radio buyers say it would make buying radio easier.*
A. I really don't think Arbitrends is needed — it would cause more trouble than help. That's because radio does not have the immediacy of tv — radio audiences do not fluctuate significantly month to month. With radio, it takes time for audiences to build. Buyers would be flooded with information that they don't need, and that might not even be valid, especially in the case of a station changing formats.

Q. *If not Arbitrends, what?*
A. I would like to see stations in major markets which currently have four quarterly books, increase that up to six reports. And in smaller markets, which currently have only one ratings book, to upgrade to four. Another improvement would be to increase the number of diaries in a given market report to make the audience information more statistically valid.

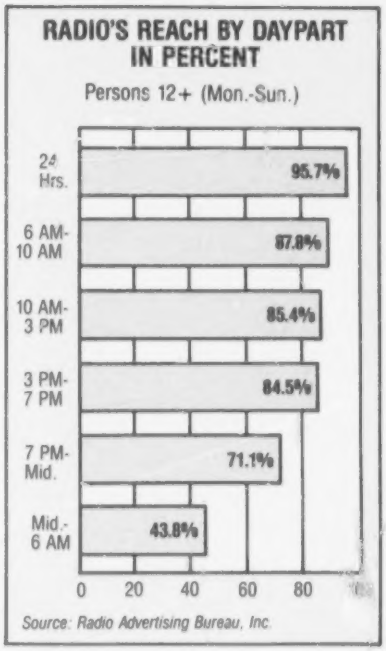
Q. *The Radio Advertising Bureau is trying to instill a new level of professionalism in selling the medium — to be less cutthroat with each other, and to unite to build the medium's image and bring more dollars to radio. Do you see any improvement in that area yet?*
A. It's beginning to happen. Internet, for example, is actively positioning radio as a better buy than tv, looking to bring more dollars into the market for radio, rather than just try to slice up what's out there.

What would be even better would be if the radio reps would start talking to the account groups at the agency, not just the planners as they do now.

Q. *Is cable cutting into radio's turf?*
A. No, the medium that is suffering from cable is network tv. The only radio daypart that has really been affected by cable is evening, which was never radio's strongest daypart, anyhow. Cable has not hurt drivetime or midday, however.

Q. *What do you see in the way of cost increases for 1985?*
A. Minor — 5% to 8% overall and that's because we're coming off an election year and the Olympics; plus the economy, with inflation slowing down, is good. Prices rose from 1983-84, about 12%, but buyers simply won't put up with that.

Q. *What is your pet peeve about buying radio?*
A. The fact that all stations will not list their rates in SRDS. I understand the plight of the stations — their payments to Arbitron are based upon their highest ratings, and therefore they aren't eager to have those numbers published. But for my planning purposes, it's a tremendous deterrent. If I can't get a quick answer to clients about a station's rates, I might lose that client to television.



second most popular import behind only Heineken. "Spot radio is the primary medium for us, plus some tv," tells Roy Shane, director of marketing for Molson. He also adds that the 1985 budget for both media will be "significantly high[er]."

Molson doesn't buy into radio formats; rather it looks for shows which offer the demographics it is seeking. The brand might be found on a sports show in one market, and on a country and western outlet in another.

Competitor Anheuser-Busch is also a major radio advertiser. Chuck Fruit, vice president of corporate media for the brewer, says they like to sponsor play by play sports around the country, because it usually attracts the prime beer drinking 21-49 year-old audience. Anheuser also spends heavily on young adult type programs, in hopes of reaching the 21-34 year-old age bracket.

Ogilvy & Mather has used radio extensively for a number of clients, most notably Trans World Airways and American Express. "TWA's primary radio sponsorship in key markets is in sports because they are trying to reach business people, and the 25-54 year-old age group who flies on a regular basis," explains Mark Rice, assistant

Continued on page 117

Consumer magazines ask for 7% rate hike

Conservative increases expected to help maintain healthy ad growth.

Aiming to maintain the momentum of an upward trend, consumer magazines are playing it conservative by asking ad buyers to pay smaller-than-expected rate increases in 1985.

While the cost of publishing continues to mount — particularly paper prices — most analysts, advertisers and their agencies anticipate they will pay only an average 7% more in the printed medium. That increase follows rate hikes of between 8% and 10% during 1984.

An increasingly healthy consumer magazine industry, driven in part by the rise of special interest publications (such as computer magazines), and by the high cost of competitor television, has seen both larger page and ad revenue growth than in preceding years. Pages were up only 3% during 1981 and 1982, while revenues were up 12% and 5% consecutively.

But the current year is a particularly strong one for magazines — a propelling effect that the industry doesn't want to lose. Magazines should be up 15% in revenues and 8% in pages during 1984, predicts McCann-Erickson's senior vice president, director of forecasting, Robert J. Coen.

"The increases we have seen so far look as though magazines will be playing it safe. If they are faced with greater cost pressures in the coming year, it is not reflected in the modest increases they are asking for," reports Thurman Pierce, vice president, U.S. manager, print media, at J. Walter Thompson.

One logical reason magazines are asking for reduced rates is that prices have been growing at a slower rate: the consumer price index shows only a slight gain of 4.1% this year, nearly equal to the price increases of 1983's 3.8% and 1982's 3.9% but far less than 1981's 8.9%.

This year's and next year's ad rate increases reflect what has happened historically, however; magazines charge a higher CPM increase than is justified solely by consumer price index readings. Since 1976, for instance, the Magazine Publishers Association figures, CPMs have risen 89% compared to a 75% CPI increase over the seven years ending in 1983.

The rallying cry, therefore, among buyers, is to hold the line in 1985. "We have always been against large magazine rate increases and this year, based on the rate of inflation, large increases will be unjustified," emphasizes Jack Schneider, group media manager at Seagram Distillers Co.

Advertisers already have budgeted reduced percentage increases for magazines next year. R.J. Reynolds, for example, is counting on rates to be up by 6% to 7% in 1985, according to Dan Pearson, director of media.

Campbell Soup Co. has built into its magazine budget leeway for publishers to increase costs by as much as 10% but is counting on prices falling under that mark, notes Patty Green, assistant manager, media services.

The cost side of publisher's balance sheets, has given buyers, however, reason to believe that past rate hikes have been fair. Production costs, for example, have risen 102% between 1976 to 1983.

SUMMARY OF RESPONSES TO MPA FINANCIAL SURVEYS

1981-1983

(Amounts expressed as a percentage of total magazine revenues)

	Percentages		
	1981	1982	1983
Total number of magazines reporting	170	192	154
Revenue			
Net advertising revenues	51.08	50.19	49.87
Gross subscription revenues	33.30	33.32	33.70
Gross single copy revenues	15.62	16.49	16.43
Total magazine revenues	100.00	100.00	100.00
Advertising expenses	8.21	8.80	9.15
Circulation expenses	24.58	24.74	25.06
Editorial costs	7.75	8.24	8.40
Manufacturing and distribution expenses	41.07	39.51	36.91
Other operational costs	2.66	3.37	3.27
Administrative costs	6.76	6.58	6.32
Total magazine costs	91.03	91.24	89.11
Operating profit (before taxes)	8.97	8.76	10.89

Data: MPA/Price Waterhouse Financial Survey

This year, and next, one aspect of production costs — fees for paper — has become especially troublesome to publishers. Increased demand for paper (a commodity that swings in price based on supply and demand) already has resulted in a 23% increase in paper costs since October, 1983, points out Jim Lesac, Meredith Publishing's corporate director of purchasing.

Paper cost increases so far have come in three waves of about 7% each, starting in October 1983, with subsequent increases in January, 1984 and July, 1984. Next year prices are projected to jump another 10%, according to Strategic Futures Inc., a marketing consulting firm in graphic arts, which recently completed a thorough study of the tight paper market.

What has aggravated the situation, according to the firm's study, is increased demand for high-quality coated paper from coupon distributors who are after higher redemption levels. Of total coupons run, 36.6% in 1983 ran in free-standing inserts, an increase from 26.2% in 1981, according to a sales promotion report by D'Arcy, MacManus & Masius. In addition, retailers, faced with greater competition from off-price chains and specialty shops, have opted to print catalogs in greater quantity and on quality paper.

Even though the paper report notes that demand is 6% greater than supply for the industry during 1985, many ad agencies and advertisers who buy magazines remain skeptical. (See Leo Scullin's remarks in question & answer sidebar.) The claim from buyers is that magazines will exaggerate the severity of the shortage in order to justify any possible ad rate hikes. In addition, they point to the probability that many large publishers, who have already locked up paper supplies in advance of the shortfalls, will be able to pass along increased costs without actually paying those higher rates themselves.

But, according to Dick Serafin, Time Inc.'s corporate director of purchasing, even Time does not have "all the paper that it would like to have on hand."

"We try to plan ahead as well as possible to protect ourselves. And if we have a good idea of what our magazine's demand will be then we can contract for a particular amount of paper," Serafin says. But he notes that the publisher would like to have "more flexibility in paper supply to offer advertisers special inserts and gatefolds."

Time, however, has no plans to either cut back its magazines in size or shift to non-coated stock if the paper shortage becomes a major problem, according to Serafin. Time had shifted to alternative paper stock during the most recent paper shortage in 1979, but Serafin concedes that move "was not accepted well by anyone."

Consumer Magazines Advertising Rate Index

	Unit Rates	Cost-per Thousand	CPI
1970	100	100	100
1977	119	123	156
1978	120	135	168
1979	140	146	187
1980	156	162	212
1981	173	179	234
1982	189	195	249
1983	203	212	258
1984*	220	229	268

* Estimate

Magazine Advertising Rate Increases Compared to Other Media Cost per Thousand

	1970-1977	1977-1984	1970-1984
Consumer magazines	23%	85%	128%
Business magazines	28	64	110
Day net TV	77	58	180
Eve net TV	67	128	281
Newspapers	75	81	217
Nat'l. Sunday Mags.	48	83	171
Net Radio	8	41	52
Outdoor	53	106	215
Consumer price index	56	72	168

Source: James B. Kobak & Co.

Consultant eyes magazines' cost picture

The magazine industry has picked up strength this year on top of big gains in 1983, according to magazine consultant, James B. Kobak.

While there was some softness in newsstand sales, other economic indicators were up, Kobak finds.

One particular indication of magazines' continued prosperity is the addition of 110 more titles in Standard Rate & Data than there were a year ago, he notes.

Advertising volume also remains strong, Kobak observes, pointing out that advertising pages in major magazines were up 10% in 1983 and have continued with gains of similar amounts this year. In addition, he figures that advertising dollars were ahead by 15% last year and are up the same percentage in 1984.

Accordingly, consumer magazines have increased their ad rates: by some 7% in 1983 and another 8% for 1984. Even so, Koback says the increase since 1970 has been much less than the consumer price index and less than most other major media. Since 1977 increases have been greater than the CPI.

As for circulation, Kobak notes that prices continued to escalate during 1983, and that there are no signs that the peak has been reached. Circulation has been taking an increasing share of the revenue, he says, but that trend will change this year, according to Kobak, who estimates that advertising during 1984 will make up 52% of revenues.

Single copy sales, which were down marginally in 1982 and 1983, are beginning to show greater strength this year, Kobak continues. Losses in single copy sales, however, have been offset by increases in subscriptions.

Meanwhile, Kobak notes that in recent years publishers have benefited from a hiatus in the seemingly endless cost spiral. During the past year, however, he says paper has been in short supply and prices have increased some 25% in the last 12 months with another 10% to 15% rise anticipated.

Consumer Magazine Sources of Revenue

	Advertising	Subscriptions	Single Copy
1970	64.33%	27.91%	7.76
1977	55.47	29.59	14.94
1978	53.69	28.67	17.64
1979	52.22	30.41	17.37
1980	51.14	32.67	16.19
1981	51.08	33.30	15.62
1982	50.19	33.32	16.49
1983	49.87	33.70	16.43
1984*	52.00	33.00	15.00

* Estimate

There are signs that the paper shortage could worsen before it gets better. Since the previous two periods of shortages, in 1974 and 1979, additional capacity has been created by paper producer St. Regis Corp. But expanded supply will not be ready until the end of 1986, when Consolidated Papers, Inc., starts production from a new machine, announced this summer. If demand continues to build from retailers and coupon distributors, shortages could result in another round of increased paper prices.

A second cost burden magazines will be forced to bear in the coming year is the increased cost of doing business with the U.S. Postal Office. Magazines use both second class, for mailing out magazines, and third class, for soliciting subscriptions.

The Postal Rate Commission is expected to recommend by September 10 that second class mail charges increase by 12% and by 27% to 28% for third class. The rationale given is that the $28 billion business needs another $3 billion in 1985 to break even — despite a current surplus of $600 million. The Board of Governors, which evaluates the proposal, may, in light of the surpluses, trim some suggested increases. But, it is likely that first the board will act to reduce price hikes intended for first class mail. The proposal is for a 23¢ stamp.

Regardless of the board's decisions, however, the Magazine Publishers Association is "telling publishers to expect 15% to 20% increases in postal costs overall," says Chapman Carpenter, senior vice president at the MPA in Washington, D.C.

The proposed postal hikes follow a modest 1.9% increase in 1982. The increase before that occurred in 1979. However, Carpenter points out that postal costs for magazines have increased by 450% since 1970 as the postal service reorganized and second

Consumer Magazines Circulation Price Index

	Average Single Copy Price		Average Yearly Subscription Price		Consumer Price Index
	$	Index	$	Index	
1970	$ .63	100	$ 7.16	100	100
1977	1.11	176	13.39	187	156
1978	1.21	192	14.86	208	168
1979	1.33	211	16.30	225	187
1980	1.48	235	16.75	234	212
1981	1.62	257	18.06	252	234
1982	1.80	286	20.28	283	249
1983	1.97	313	21.53	301	258
1984 (est.)	2.07	329	22.61	316	268
1970-1977 Increase		76%		87%	56%
1977-1984		87%		69%	72%

Source: James B. Koback & Co.

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class mail, which was heavily subsidized prior to the 1970's entered a pay-as-you-go era.

While advertisers and their agencies are aware of — and sometimes even sympathetic to — magazines' greater costs, most are not likely to increase budgets to cover those additional costs, especially if magazines have to raise rates midway through next year to account for postal and paper's additional expense.

Says Reynold's Pearson: "Rate hikes give us less effective buying power, particularly mid-year ones. If they raise rates mid-year, we won't have the money budgeted to cover that."

The trend has been to raise rates only once a year, although during the periods when inflation was escalating, many magazines chose to soften the blow by two smaller punches spaced out more equally. "We're not living in that inflation-frenzied period," says JWT's Pierce, even as he notes that *People* magazine has raised rates twice this year.

While most buyers have generally considered magazine rate hikes in the past to have been fair, they are a tough lot when it comes to evaluating what is a just price because of the availability of financial data for magazines.

The MPA's recently released financial survey by Price Waterhouse shows that magazine profitability actually has increased since 1982. The study notes that the average pre-tax operating profit as a percent of revenue for 154 magazines participating in the survey was 10.89% in 1983, compared with 8.76% for the 192 magazines responding in 1982. In addition, the research mandates further study of just how severe manufacturing costs are for publishers. That category, which includes paper, has decreased costs from 41% of magazine's total revenues in 1981 to 36.9% in 1983. (Paper costs are estimated to make up slightly more than half of those manufacturing expenses.)

Other expenses include 9% of total costs for advertising, 25% for circulation, 8% for editorial, 3% for additional operating costs and 6% for administrative, according to the study. Beyond that breakout of expenses, the MPA, in a separate documentation, notes that postal costs factor in at 10% of magazine revenues.

With buyers keeping abreast of these cost trends, publishers are increasingly being held in check. "More and more accountability has become the name of the game," says Sy Goldis, senior vice president, media services at Doyle Dane Bernbach. "Magazines in the past didn't explain rate increases but now it's in vogue to go into greater detail with clients and their agents who are expecting value."

Buyers, however, may take solace in the fact that readers are increasingly picking up a higher percentage of the

Basic Data for Consumer Magazines
Selected Years — 1960-1983

	1983	1982	1981	1980	1970	1960
Number, including farm publications	1,759	1,644	1,541	1,503	1,182	1,005
Advertising in major magazines						
Pages (per year)	133,000	120,800	121,500	115,300	76,900	74,900
Dollars (millions per year)	$3,939	$3,421	$3,222	$2,374	$1,169	$830
Circulation per issue						
ABC audited magazines (millions)						
Single copy	83	86	87	91	70	62
Subscription	222	217	203	174	173	128
Total	305	303	290	265	243	190

Source: James B. Kobak & Co.

tab than advertisers. Over the last eight years, circulation revenues from subscriptions and single copy sales have increased from 45% to 50% of total magazine revenues. In addition, MPA figures show that subscription prices have increased 119% and newsstand prices by 205% between 1976 and 1983. (CPM's have increased 89% during the same time period.)

Magazines gain a further price advantage when their CPM's are contrasted with other competitive media. Magazine consultant James B. Kobak notes that from the period 1970 to 1983, day net tv rose 1% faster than the consumer price index, evening net tv 58% more rapidly, newspapers by 32% more, and outdoor by 27%. Business magazines, spot tv, radio and supplements' cost increases were lower than the CPI, according to Kobak.

Even though magazine rate increases to advertisers have fallen at a mid-point between other media, one difficult issue the magazine industry has yet to face squarely is how much will advertisers pay for a single page in a publication. Annual ad rate increases, coupled with circulation gains, have resulted in page rates of as high as $275,000 (the cost of a single page in *Parade*). In many other large publications, such as the women's service books, it has become common to ask for $100,000.

> **"Large increases will be unjustified."**
>
> Jack Schneider, Seagram's.

"It's a tough question: how high can they go before it becomes unacceptable?" says Jay Schoenfeld, senior vice president, media director at Backer & Spielvogel.

Signs that the pressure point is about to be reached are present. They take the form of rate-breaking, selling discounted rates from what are supposed to be fixed prices. Although actual deal-making is reportedly not a factor yet, some advertisers are asking for (Ford Motor Co., for one) special allowances to use merchandising credits as a subtraction from page rates.

A CONVERSATION WITH LEO SCULLIN

Lawrence Barns

Leo Scullin, Young & Rubicam's director of print media, has developed an expertise in magazines.

Q. *Based on the gains in ad pages and revenues this year for magazines, do you think that rate increases to advertisers also will be higher than usual?*
A. I agree that magazines will try to get healthy increases in 1985. I think there's two reasons for that: one, demand is up and secondly, paper prices have gone up.

Q. *Publishers have been complaining that soaring costs for paper this year will prove to be a nightmare. Do you think that rising paper prices will be a just rationale for ad rate increases?*
A. They're going to fuel the perception that everyone is going to be suffering and that advertisers are going to have to go along with it. I don't buy that. According to Price Waterhouse's study of magazine's cost of doing business, manufacturing only accounts for 36% of the total and that percentage has declined a few points from a few years ago. Paper's percentage is only 15%. A 10% increase in paper prices would turn out to be a 1.5% increase in the cost of doing business.

Q. *How serious do you perceive the paper shortage to be for publishers?*
A. I don't think the dilemma is as significant as most think. Some publishers are very, very smart. The smart ones, who have locked up their paper supply for the long haul, are going to be able to ask for and get rate increases from advertisers too, because the perception will be everybody is suffering. But I know not everybody got caught.

Q. *Postal costs have not risen for several years and the government this year seems to be diverting the threat of a strike with counterthreats of firing anyone who strikes. Paper costs also are not so worrisome to you. With inflation expected to be slowed somewhat this year, do you feel magazines are justified in asking for cost increases in 1985?*
A. I expect certain increases based on the costs of doing business and beyond that, advertisers have grown accustomed to paying increases based on inflation. But beyond that, I also think it's fine to ask for a rate increase if a magazine is in demand.

Q. *What do you feel is the right level of ad rate increases?*
A. I'll expect specific rationale for any increase over 10%. I'll also

Continued on page 70

Magazines, however, still are often viewed as the less costly alternative to television. For example, during the traditionally tight market year of the Olympics and the elections, magazines generally benefit as they did this year as prices for television soar beyond some advertisers' reach. The following year, however, prices subsequently fall off, creating a new tougher selling environment for magazines.

But the coming year breaks that rule. Advertisers paid 10% to 12% during 1984-85 up-front buying season for prime time programing, more than the single digit increases of the previous year. And daytime tv prices went through the roof — up by as much as 12% to 25% during the up-front market.

In light of those cost trends, it is hard to predict exactly how magazines will fare. There are two schools of thought, according to Steve Leff, executive vice president and director of media services at Backer & Spielvogel. "If tv costs rise rapidly, then that gives magazines more rationale for greater increases, too. But the more ad dollars tv chews up, the less left over for those with a limited budget to spend in other media."

There is no doubt, however, among buyers of magazines, that the medium has some serious obstacles to overcome. One is the fact that research services, Simmons Market Research Bureau and Mediamark Research Inc., don't agree on how big the audience is for magazines. Until credible figures from the services emerge, agencies massage the numbers for their own purposes, often averaging two year's results into one or using circulation figures instead.

The problem with using circulation figures is that cost per thousand calculations come out much higher against television, for instance, than if audience figures are employed. The issue is a particularly difficult one for magazines because ad agencies share in the cost of audience research studies.

Percentage of Paper Used

Pounds	1983	1982	1981
32-36	54.4%	57.2%	53.8%
38-44	24.0	23.6	28.0
45-50	10.5	8.6	8.4
60+	11.1	10.6	9.7

Source: James B. Kobak & Co.

In addition, buyers would like to see more research by the magazine industry on one of the strongest selling points it has: reader involvement. MRI has moved in that direction with a readers per copy figure in its latest research. SMRB is expected to release its own figure within the year.

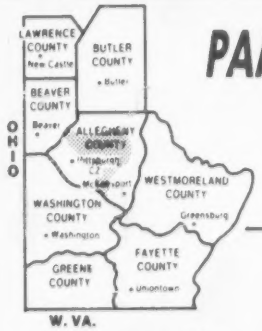
Furthermore, advertisers and their agents would be very pleased if magazines would start selling their media more creatively. They are tired of hearing how magazines stack up against television even though the MPA's senior vice president/marketing development, Marianne Howatson, claims that a newspaper and trade campaign it launched last year to bring attention to network tv erosion highlighted that sticky problem while resulting in greater magazine business.

"This sort of negative selling against television never works," counters Goldis at Doyle Dane Bernbach. "They have a lot of other pluses which are unique that they should be out selling."

For starters, he suggests that magazines, if they really want to put in a plug for their industry, try talking about compatability of editorial environment for advertisers and such things as reader's interaction with publications.

Magazines, if they are going to continue to prosper, must find a way to sever their economic ties to the demand and supply tides of television. Additional research that goes beyond sheer numbers — which television has anyhow — and delves into quality considerations could prove to be one way magazines will avoid valleys and peaks.

Rebecca Fannin



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Booming business press plans small cost push

Healthy business press means modest increases for advertisers.

Happy days are here again for the business press, and the joy is spreading to business advertisers. Advertising costs in business publications, which had been rising at an average 10% rate over the past few years, have stabilized at a lower level with the booming economy. Advertising agencies and major business advertisers alike anticipate only modest rate increases, ranging from a conservative 6% to a more guarded 9%.

M&MD's panel assays rates for business publications will rise 7.5% during 1985.

Much of the jubilant outlook comes from the nature of the medium itself. The business press is more responsive to the economic pulse of the country than any other medium, although it usually lags boom and cutback cycles by about six months. Within the categories of business press, the connection is even tighter: the fate of these magazines is almost entirely dependent on the health of the sector they serve. "How close is the correlation? About one," emphasizes Peter Sprague, executive vice president of the U.S. Business Press group of magazines, voicing a view shared by other publishers. A boom year for the economy, such as 1984, is a boon to the business press.

Economic health notwithstanding, some clouds loom on the horizons —

cost pressures for publishers that are likely to be translated into higher rates for advertisers. One major area of concern is the paper shortage, a situation aggravated by increased use of coated magazine stock by non-traditional users such as catalogue publishers and couponers. American Business Press president Tom King says simply, "The way things look now, there isn't going to be any relief in the near future." Foreign producers already provide 8% (or 150,000 tons) of the paper, according to John Glifford, a paper analyst at Clayton International, but as one McGraw-Hill executive adds, even those sources are drying up. Since printing and paper can represent as much as 50% of non-editorial costs, publishers are understandably alarmed by the increases promised and hinted at by paper manufacturers — between 6% and 7% every six months, a compound annual rate close to 15%.

Another stumbling block is the anticipated postal rate increase, scheduled tentatively for March, 1985. Postal expenses vary by publisher, but the aggregate percentage has been slowly moving up, from 7.7% to more than 8.5% today, according to figures compiled for the ABP by John DeWolf, vice president of corporate research at Cahners Publishing. Most publishers expect the postal rate hike to translate into a 10% to 15% increase in postal expenses, although some are even more pessimistic. Richard Duffy, vice president of publications at Chilton Company, for example, foresees a 20% hike.

On the other hand, say the publishers, they have been trying to offset production costs with improvements in printing technology. Printing costs

Business Magazines' Expense Ledger

	Costs			Projected Costs			
	1974	1977	1982	1983	1984*	1985	1986
Compensation	32.3	23.9	24.0	23.38	26.64	30.06	32.70
Printing	18.4	15.5	15.8	16.20	20.13	23.02	25.14
Paper	9.3	10.5	11.0	10.63	13.51	14.83	14.75
Postage	7.7	9.2	8.7	8.53	10.07	11.84	12.13
T & E	6.2	4.4	5.2	5.30	5.54	5.91	6.38
Other	26.1	32.5	35.3	35.96	37.61	40.10	43.30
	100.0	100.0	100.0	100.00	113.50	125.76	134.40

* Indexed to 1983 figures.
Source: John DeWolf, Cahner's Economic Department, for the ABP

have indeed fallen, from an average 18.4% of costs to 16.2% over the past ten years, according to the Cahners figures. But printing costs are expected to increase sharply over the next few years — by at least 4% in 1984, and another 3% in 1985. Much of this increase is due to publishers' reluctance to make investments in capital when interest rates are high. According to Bernie Newman, vice president and media manager at Needham Harper & Steers, most presses are already functioning at capacity, making the need for greater capital expansions more immediate.

What do these aggregate changes bode for advertisers? ABP's Tom King predicts that these changes will average out to a 9% overall increase in rates. Most advertising agency executives aim a little lower. Marty Schwartzberg, media director at Hammond Farrell, an industrial advertising agency, sees costs coming in between 6.5% and 8%, which he attributes to the upturn for metalworking, chemical and other industrial magazines. At Marsteller, on the other hand, media director Carla Loffredo sights a broader spread — between 8% and 12% — which takes into account the higher rates electronic and high-tech publications are expected to charge this year.

Yet the aggregate figures tend to be misleading. It is almost a strain on the language to lump diverse areas such as medicine, electronics, petroleum, and machine tools into the same category, business press. While the medium itself has been growing at a steady 4% rate among audited publications, bringing the total this year to almost 2,800 — over 4,500 if one includes unaudited publications also listed by Standard Rate and Data Services — growth rates of different industry publications vary wildly. Perry Patterson, director of corporate research with Gordon Publications, notes that total business publications advertising pages are increasing by 6% this year, and will grow another 4% in 1985. But within the oil and petroleum press, he has observed a 12.5% decline in advertising pages — matching the downswing in that industry — and anticipates no growth at all for 1985. Among data processing magazines, on the other hand, Patterson notes a 15% growth, to be followed by an additional 8% growth next year. Plastics figures, skew all projections, fattening at a 30% rate this year, with a more modest 4% expected for next.

Similarly, J. Walter Thompson's Bert Peller has studied the 100 leading business publications — of which 29 are high tech, 16 medical, 19 retail or services oriented, 22 heavy industry related, and 14 heavy industry service magazines. Although he notes that overall advertising revenues leaped 20.1% this year with an 11.8% increase in pages, the figures for some individual areas are even more im-

Business Magazines Advertising Rate Index

	Unit Rates	Cost per Thousand	Consumer Price Index
1970	100	100	100
1977	137	128	156
1978	141	132	168
1979	149	140	187
1980	157	148	212
1981	166	158	234
1982	181	172	249
1983	195	186	258
1984*	211	201	268
1970-1977 Increase	37%	28%	56%
1977-1984	54	57	72

* Estimate
Source: James B. Kobak & Co.

Basic Data for Business Magazines
Selected Years — 1960-1983

	1983	1982	1981	1980	1970	1960
Number Advertising in major magazines	3,039	2,846	2,675	2,364	2,376	2,310
Pages (thousands per year)	1,705	1,741	1,776	1,480	1,093	1,200
Dollars (millions per year)	$2,470	$2,328	$2,156	$1,495	$836	$547
Circulation per issue (millions)	72.0	71.5	70.0	66.8	62.3	47.6

Source: James B. Kobak & Co.

Advertising revenues in 100 business publications
6 months 1984 vs. 6 months 1983

Publication Category	Number Of Publications	Revenues 1984 $	1984 Share	1983 $	1983 Share	Change
Electronics/High Tech/EDP	29	$170,041,018	36.5%	$127,990,123	33.0%	+32.9%
Pharmaceutical/Med. Svcs.	16	69,402,491	14.9	65,642,512	16.9	+ 5.7
Industrial Markets	22	69,438,867	14.9	61,768,498	15.9	+12.4
Industrial Svcs./Consultants	14	62,894,087	13.5	54,991,237	14.2	+14.4
Retail & Professional Svcs.	19	94,002,635	20.2	77,807,208	20.0	+20.8
Total	100	$465,779,098	100.0%	$388,199,578	100.0%	+20.0%

Source: The Gallagher Report 6/4/84

pressive: revenues for the five leading microcomputer magazines zoomed up 111.7%, for example.

It is this tremendous growth among high technology business magazines that has led some advertisers to fear higher rate increases. "There is such high demand for the product," says King, "that some publishers will feel safe going for a larger rate increase — the market can stand it." He adds that advertisers will owe part of their cost increases in most magazines to the state of the economy: "It may not be as easy to justify rates when the economy is booming, but publishers feel that budgets are less tight."

Since business press audiences do not change much year to year — less than 1% on average — cost per thousand is expected to increase almost parallel to unit costs. This, says Hammond Farrell's Schwartzberg, will not deter his clients at all. Like most advertising agency executives who make frequent use of the business press, he finds CPM a poor indication of a magazine's merits and costs. Part of his reason is that the vertical publications — backed with readership studies — deliver the audience his clients want. "If a magazine has an audience I want," he adds, "even if it's only 50% exact, I'm happy with that. I really wonder what the value of CPM analysis is in this business. There are some people who look at business magazines that way, but I'm not sure those are the people that matter."

Other agency executives note that CPM trends are less important than the new way business advertisers are approaching the business press. While companies still go into business vehicles to sell their product to their particular users, they are also becoming more attuned to the nature of that audience. Much of this has been the result of greater research by publishers. Richard Groves, chairman of International Thomson magazines, explains that an "on-going research program" is a built-in cost for all magazines. "Of course," he continues, "it's tough to estimate what the market research costs — it's proportional to the activity and the competition in that field."

Other publishers agree. "Spending money to find out what the reader wants," says McGraw-Hill's Paul McPherson, executive vice president of publications, "allows us to fine tune the editorial. It creates a self-selected readership." This attention to the au-

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THE ALBANY-SCHENECTADY-TROY M.S.A.

While our network affiliates combined prime-time household rating has dropped over 20% since 1976, the Albany-Schenectady-Troy MSA's #1 newspaper buy is as strong as ever. Less than $1900 buys you a quarter page Sunday and daily combo, delivering 99 GRPS and 60% reach.

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NOBODY COVERS NEW YORK S CAPITAL LIKE
NEW YORK'S CAPITAL NEWSPAPERS
TIMES UNION Mornings and Sundays
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DIVISION OF THE HEARST CORPORATION

A CONVERSATION WITH BILL MARSTELLER

William A. Marsteller founded Marsteller Inc. in 1951. He co-founded Burson-Marsteller, the public relations firm.

Q. *You have noted that the business press is consolidating.* (M&MD, Business Talks To Business Special). *What kind of an effect would fewer vehicles have on costs?*

A. Yes, we are probably in a period where the weak get weaker and the strong get stronger — you can bet on the consolidation of the business press. That ought to mean that costs will decrease for publishers, which may hold cost increases down somewhat. Conceivably, CPM might fall, since it's generally cheaper to buy a wider circulation in a field.

Q. *You have also observed that there are more opportunities for reaching business people — radio, and television, and programs like the* Financial News Network. *How do these avenues affect the cost of reaching a business target?*

A. They make it more expensive to reach. While you are reaching people you might not be able to reach otherwise, using many of those media also means that you are picking up a lot of waste. Also, while there is certainly a growth of financial media in radio and television, you can't ignore the growth in print. I'm thinking of the city business press, such as *Crain's Chicago Business* and the New York edition starting this fall — that's a growth area which will pick up advertising without question. Of course, media like that are very wasteful for someone with a narrow business service. Not necessarily for a bank, for example, but certainly for a manufacturer of forklifts or conveyor belts.

Q. *The news lately has been filled with stories of mergers and acquisitions, a trend toward the consolidation of business. How does this affect the business press?*

A. Mergers and acquisitions tend to lead to an increase of corporate or institutional advertising. Corporate advertising, as it's now called, wasn't so necessary when a company was a one product or one industry producer. A company that makes machine tools doesn't need to go out of the machine tool press to reach its audience. Now, a machine tool company that's also in several other industries, with other products, has a broader message, aimed not only at the customer for machine tools but at other audiences as well — the audience for stocks, for example. And as companies continue to diversify, there's bound to be a shifting weight toward corporate advertising. This is very difficult for the businesss press. But corporate advertising should be the icing on the cake, and you shouldn't eat only the icing. There should be product advertising running under the corporate advertising — and you need the specialized press for that.

For example, take Rockwell International. When they were a narrow company, they only needed a handful of business press to reach their primary audience. Now they're in a number of businesses, with plants all over, with sales all over but with a great proportion of those revenues coming from the

Continued on page 119

dience's profile is leading some agencies to promote audience, rather than vehicles, to their clients.

"That is the new rule of business to business advertising," agrees N W Ayer's vice president and media director, Thomas Spasari. "You can find your audience in different ways, either by combining various publications in different areas, or by going to other media entirely." At Needham, vice president and media manager Newman says he has observed a similar trend. Citing Xerox's advertising as a case in point, he notes that "business advertising is seeking out a leisure environment. We still have to be involved in the targeted media, but the other media give us an advantage — because the advertising is unexpected." Xerox's familiar marathon runner campaign for its copiers, for example, appears in such diverse magazines as *Runner, Esquire* and *National Geographic*, overlaid on a media mix that includes general interest business publications and newsweeklies. Account supervisor Peter Gardner estimates that the separate budget "dedicated to vertical markets" represents about 10% to 15% of all print expenditures. Copy in such magazines as *En-*

Projected advertising pages for several magazine categories

	1984	1985
Engineering & construction (15 publications)	+5%	+7%
Metal and products design (12 publications)	+15%	+7%
Oil and petroleum (6 publications)	−12%	0%
Telecommunications (3 publications)	+20%	+5%
Plastics (4 publications)	+30%	+4%
Data processing (OEM manufacturers) (4 publications)	+15%	+8%
Micro computer (end users) (10 publications)	−5%	−2.5%

Source: Perry Patterson, director of corporate research, Gordon publications.

gineering News Record varies a little from the corporate creative.

It is predominantly relief from clutter that has driven business advertisers to expand out from the traditional business press sector to more consumer oriented publications. With ad revenue growth in electronic and high tech magazines topping 32%, it is hardly surprising that the greatest changes have been there. According to Robert Hogan, editorial director of Folio's *Ad Guide*, office machines, business computers, and corporate advertising represented 70% of all business advertising in general interest publications — with business computers accounting for a full 30%. Business revenues in these magazines totaled $303 million, or almost 8% of all ad revenues in consumer magazines. But, notes McGraw-Hill's McPherson, there has been no migration from business magazines; advertising in the consumer press comes in addition to the businesss magazine schedule. Bert Peller, at J. Walter Thompson, agrees, stressing that "there is certainly no cost advantage to going into the consumer press."

Advertisers agree, noting that media selection between consumer and business press depends on the company's structure . . . and budget. At 3M, for example, the diversified manufacturing company has put $3 million behind a corporate advertising campaign which depends on a mix between business and consumer print. However, cautions Karl Kaufmann, corporate advertising and international marketing communications manager, product advertising in business magazines still gets 75% of the media budget.

"Even when the business press costs go up, we've still got to advertise our products," he says, "although frequency may suffer." The company currently uses over 600 publications for its more than 50 divisions. "From a product standpoint, there really isn't any alternative. We can absorb 5% or 6% increases without changing frequency," he adds. Even though the corporate campaign does boost awareness, Kaufmann explains, it cannot substitute for product specific ads.

"If the business press balances their cost increases with increases in CPM," he says, "we won't be as concerned. Right now, they're postponing an-

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Sources of Revenue

	Advertising	Subscriptions	Yearly Subscription increases
1970	71.1%	28.9%	100
1977	71.6	28.4	188
1978	72.6	27.4	209
1979	71.1	28.9	241
1980	69.0	31.0	276
1981	70.0	30.0	319
1982	70.2	29.8	351
1983	67.7	32.3	386
1984 (est.)	70.0	30.0	405

Source: James B. Kobak & Co.

If you could buy only one TV station in Nebraska, which would you choose?

How about the one that leads the nation in ADI share: KOLN-TV/KGIN-TV.

FIRST IN THE NATION
Early Fringe, Women 25-54 .....47%

SECOND IN THE NATION
Late News, ADI Homes.....49%

THIRD IN THE NATION
Total Day, ADI Homes.....34%
Early Fringe, ADI Homes 38%

KOLN-TV/KGIN-TV dominates the $3.1 billion Lincoln-Hastings-Kearney market you've got to cover if you want to cover Nebraska. Get all the facts and figures from your Avery-Knodel representative.

Television/Radio Age and Arbitron, May, 1983

A Telzer Station

KOLN-TV/KGIN-TV
Channel 10 A CBS Affiliate Channel 11
LINCOLN, NEBRASKA 1500 FT. TOWER / GRAND ISLAND, NEBRASKA 1069 FT. TOWER
Avery-Knodel Television National Representatives

Newsprint will up the cost of newspapers by 8%

But SAU's will cut the paperwork.

When newspapers adjust their rates, they usually give a reason for the increase, and the reason is most often the price of newsprint.

In 1983 the paper suppliers were unable to make their projected increases stick. One reason for the soft market was a shift of advertising from rop to inserts, many of which use magazine stock, creating a shortage in that medium.

This year with classified booming and rop up, the newsprint suppliers led by Abitibi and Macmillan Bloedel announced a July 1 increase for the eastern United States up to $535 per metric ton, compared with $484.25 in 1983. The West is expected to get its increase on October 1.

For the last three years, newspaper rate increases have been moderating along with inflation (see table, page 86). The Newspaper Advertising Bureau, while steering clear of rate making, keeps a monthly check on the actual open line rate changes of 784 newspapers, weighted according to circulations. They show an 11% to 12% increase in 1982 easing to a 9% to 10% uptick in 1983, and starting 1984 in the 8% to 9% range. Then along came the July 1 paper hike, and newspaper rates in the second quarter responded with 10% increases.

July 1 was Changeover Day for the

newspapers; the open line rate became history, and the Bureau's James Conaghan is skirting the problem of changing eight and nine column lines into wider column inches. From now on he'll be measuring the comparative costs of a full page ad.

Newspapers want to make the most of this move to Standard Advertising Units (SAU's) and so the indication is that they will keep their 1985 rate rises at a moderate 8%.

The Bureau's monitor of rates, Jim Conaghan, makes 8% the high of his prediction, which is "6% to 8%."

That's the rop general rate. Inserts are expected to show a more modest increase: about 6%. There are two reasons for this: (1) The newsprint increase doesn't apply here, because the advertiser furnishes his own paper. (2) Inserts must compete with the Postal Service's bargain rate for combination mail.

What the reps predict

A spot check of the newspapers' national reps shows variations above and below with an average of 8%:

Branham: 8%.

Million Market Newspapers: 8 1/2% rop; 6% preprints.

Newhouse: 6% to 7% rop; 4% to 5% preprints.

Sawyer Ferguson Walker: 7% to 10%. "A few papers with circulation gains will go to 10%."

Story & Kelly Smith: 5% to 8%. "Very conservative compared with last year's 9% to 12%."

Landon: 6% to 7%. "Looking to return to 8% to 9% next year."

USSPI: 6% to 8% rop. "Hoping to go back to our newspapers and ask them to go easy on inserts."

What the agencies expect

Agency recommendations to clients are playing it safe; asking for contingency funds to take care of rate increases that are a shade higher than the newspapers' estimates:

Doyle Dane Bernbach: 9% to 10%.
Warwick: 7% to 10%.
McCann-Erickson: 7% to 8%.
Young & Rubicam: 8%.
J. Walter Thompson: 9%.

Softening the bite

Several factors make this year's newspaper rates easier to take:

(1) With the new SAU's, last year's cost of making several different size ads, or paying for float around one same-size ad will be eliminated in most newspapers.

(2) CPM's will be lower as more

A CONVERSATION WITH FRANK HAJEK

Four A's newspaper committee head: Frank Hajek, associate media director, manager print operations, Dancer Fitzgerald Sample.

Q. *All sources we've questioned come to a consensus of about an 8% rate rise for newspapers in 1985. How does that compare with the contingencies your agency is asking clients to plan for other media?*

Michael Mella

A. That sounds moderate to me. Some media, particularly television, will probably exceed that.

Q. *Newspaper space will cost more, but will the new SAU's lighten the load with art and production savings?*

A. Clients who were using last year's SAU's had already cut art and production costs. But they had to pay for float to fit those ads into all papers. Elimination of float will be the saving this year.

Q. *Now that both SMRB and Scarborough agree that newspapers have 2.7 readers per copy in the top 50 markets, will Dancer be giving newspapers credit for total audience in figuring cpm's?*

A. That's the big sticking point. I hope they'll use it up front at the planning level. Now that total audience is on line with other media data at the time sharing services, they'll probably use it as they do for the other media.

Q. *How many of your clients are taking advantage of Newsplan volume discounts?*

A. None at the moment. We used it for Toyota and for a tobacco account in the past.

Q. *One by one, newspapers are tooling up to offer quality color in offset. Are your clients interested?*

A. When we see good quality color uniform from one paper to another, we'll be interested. The Four A's committees are working with newspapers on this.

Q. *Is the fragmentation of network tv leading any of your clients into newspapers?*

A. Network tv is a favorite of our clients, but its rates and declining coverage are starting some to look for alternative media. Newspapers should keep hammering away to win consideration.

Q. *Are any of your clients making use of the special sections newspapers have started?*

A. I'm getting persistent questions from account groups about how these sections can target the right demographics. We study competitive newspapers to see which has the more pertinent section.

Q. *Newspapers can help you show accountability through the Nabscan data they generate at the supermarket. Are your clients using it?*

A. Several clients have used it. But with newspaper use being limited to coupons, Nabscan measures just promotion, not advertising. This is the big problem newspapers face. They have to change the advertiser's perception of them from a promotion medium to a consistent advertising medium.

NEWSPAPER GENERAL RATE INDEX

	1981	1982	%	1983	%	1984	%
January	97.50	108.71	+11.5%	120.08	+10.5%	130.46(r)	+8.6%
February	97.71	109.20	11.8	120.36	10.2	130.92(p)	8.8
March	97.94	110.02	12.3	120.87	9.9	131.91(p)	9.1
I Qtr.	97.71	109.31	11.9	120.44	10.2	131.10(p)	8.9
April	98.29	110.28	12.2	121.30	10.0	133.65(p)	10.2
May	98.70	110.38	11.8	121.67	10.2	134.54(p)	10.6
June	99.06	110.76	11.8	121.96	10.1	135.39(p)	11.0
II Qtr.	98.68	110.48	12.0	121.64	10.1	134.53(p)	10.6
July	100.03	111.22	11.2	122.78	10.4		
August	100.57	111.65	11.0	123.81	10.9		
September	101.83	112.57	10.5	124.83	10.9		
III Qtr.	100.81	111.81	10.9	123.81	10.7		
October	102.54	114.12	11.3	125.44	9.9		
November	102.78	114.76	11.7	125.48	9.3		
December	103.07	114.98	11.6	125.54	9.2		
IV Qtr.	102.80	114.62	11.5	125.49	9.5		
Year	100.00	111.55	+11.6%	122.84	+10.1%		

(r): Revised
(p): Preliminary
Source: Economic & Media Analysis Unit

agencies measure newspapers by the total audience standard they use for other media. Now that both SMRB and Scarborough audience studies are agreeing on 2.7 readers per copy, newspapers are making slow progress in getting agencies to give them credit for their total audience, rather than just their circulation CPM's. Since most national campaigns restrict themselves to the top markets, they get the greatest bonus in pass-along readership, which peaks in New York at 2.89 rpc's, and drops to 1.48 in the smallest markets.

(3) Coupon advertisers will find hot competition developing between the cooperative inserts and the national Sunday magazines. CPM's look headed toward a price war.

(4)More national advertisers are finding their way into the local rate by opening their own stores. Newspapers themselves are exploring ways to minimize the differential through dollar volume discounts. This won't happen in 1985, but it's on its way.

One more item: quality color is becoming available in more and more newspapers as they change to offset printing. Those changing are finding it difficult to interest national advertisers who are waiting for color in all papers. This frustrates newspapers who point out that advertisers didn't wait for color on all tv sets before they made the switch. *Lionel M. Kaufman*

"South Bend still on our Middle America list of recommended test markets."

Ira Weinblatt, Senior Vice President, Dancer Fitzgerald Sample, Inc. and editor of DFS' newly revised "Guide To Test Marketing"

"We dropped 17 cities from our list of recommended test markets, added 18, but still name South Bend among the 8 cities we consider the most 'average of the average' – a sort of Middle America honor roll of test markets," according to Ira Weinblatt.

See proof for yourself that South Bend is an ideal test market for your product or service, too. Write for your copy of the *South Bend Tribune's* 1983/84 Market Data book. Or better yet, pick up the phone and call for your free copy now!

South Bend Tribune

Albert E. Petersohn, General Advertising Manager, *South Bend Tribune*, South Bend, Indiana 46626 • 219/233-6161
Represented Nationally by Cresmer, Woodward, O'Mara & Ormsbee, Inc.

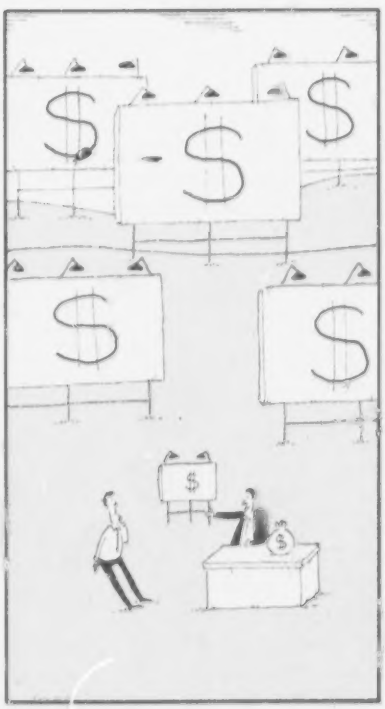
Outdoor: Trying to hold down prices, while labor, paper and land costs rise

It's becoming more difficult to get new advertisers to go into outdoor," sighs Irwin Schwartz, outdoor manager at Dancer Fitzgerald Sample. While cigarette and liquor advertisers continue to be the mainstays of the industry, the increased cost of out-of-home is closing the door to many potential advertisers, Schwartz says.

On average, the cost of outdoor is expected to increase by 8% in 1985. This is about the same as 1984, and half the 15.7% that was posted in 1983. The 8% price hike goes into effect the first of October, so the industry, according to some buyers, can take advantage of the pre-holiday burst of outdoor advertising, particularly from the spirits industry. But agency specialists in outdoor are not in complete agreement on just where the price increases will top out. Some anticipate a high of 10% on the basis of their talks with plant operators.

The presumed 8% average is based on projected increases for 30-sheet posters, painted bulletins and transit postings. Thirty-sheet posters are expected to increase by 6%, transit by 8% and painted bulletins by 10%.

Dick Briggs, vice president, director of outdoor home media at SSC&B, notes that the 30-sheet increase is about parallel to the consumer price index. Were it not for increased pressure from



agencies and advertisers to keep the lid on, Briggs says, prices would exceed realistic boundaries. "We're going to make them hold the line," Briggs warns.

While rate card hikes would appear to be relatively consistent with consumer inflation increases, some agency outdoor managers believe the negotiated rates will be greater in 1985 than they have been this year, and higher by considerably more than 8%.

Outdoor plant operators have a different view of the pricing situation. They are subject to pressures from organized labor, a building boom which threatens to eat up existing site locations, and spiraling land costs which put pressure on rental fees, particularly in California. Site rental costs, some plant operators charge, are rising at a rate nearly triple that of inflation. Where increases of up to 12% were predictable in previous years, increases ranging from 16% to 18% are now common.

Labor costs in outdoor posting fluctuate around the country, which makes outdoor pricing vary by area. Unions, particularly the Teamsters, are strong in California, and they negotiate a higher hourly wage rate than unorganized workers are likely to receive in Waco, TX or Shreveport, LA.

Another factor is the increased cost of paper, which the advertiser pays directly. The cost of paper for a 30 sheet posting was between $8 and $10 only 15 years ago. In 1984, the cost runs between $23 and $30. But according to Dan Pearson, director of media at R.J. Reynolds Tobacco Company, paper price hikes aren't an expected worry in 1985. Magazine publishers and advertisers, he suspects, will find

Poster Panel Costs
50 top Metro Markets

	1979	1980	1982	1983	1984
January	$204.33	$223.93	$282.59	$305.82	$336.72
February	204.33	223.93	283.01	305.82	336.72
March	204.33	223.93	283.01	305.82	336.72
April	204.33	224.19	283.01	305.82	336.72
May	204.33	224.35	283.01	312.67	337.11
June	204.33	226.82	283.01	312.67	337.11
July	204.91	227.47	284.15	312.67	
August	205.03	227.64	283.99	312.67	
September	213.42	235.15	294.58	312.67	
October	219.60	245.64	305.82	335.71	
November	219.60	245.64	305.82	335.71	
December	219.87	245.92	305.82	335.71	
12-Month Average	209.03	231.22	289.82	316.15	

Source: IOA

that a greater concern than outdoor advertisers.

Pearson expects the price pressure in outdoor to abate next year. "We're sensing an increase in the 7% range, which is lower than in the past several years. It's consistent with the cooling of inflation. As for increased labor costs, a lot of plant operators have contracts up for renewal, and we sense that they are taking a stronger stand on productivity than in the past."

One agency outdoor expert pins increased cost pressure on some leveraged buyouts of outdoor plants. He cites in particular the apparent sale of the New York-based Foster & Kleiser by Metromedia to a limited partnership for $480 million. "The people who bought Foster & Kleiser expected more of a return than they've been getting," Pearson confides.

But even if rates do go up about 8%, there remains the question of just how much will actually be paid. One outdoor agency manager cited the role of negotiation in the marketplace. "Outdoor is like broadcast," he observes. "It's a perishable commodity." However, he warns that negotiations over price upticks may be tougher in 1985 than they have been in 1984. "When cigarettes cut back on outdoor this year, the market softened," says the agency executive. "So, while a board may have had a card rate of $10,000, through negotiation you might have gotten it for $6,000. But I think the situation will be different in 1985. For the same hypothetical board, the card price would be $10,800, but in negotiation you might have to pay $8,000 for it, as compared to last year's $6,000, so that's really more than an 8% increase in the actual price paid."

Plant operators are generally in agreement with the 8% increase for 1985, as is the Institute of Outdoor Advertising. Bill Wilkins, president of the IOA, finds little variance from the projected 8%

Cost Per Poster Panel
1984 Rates

	Nonilluminated	Illuminated
S. California	305	399
N. California	305	399
Chicago	272	408
St. Louis	390	390
New York	—	460
Waco	146	218
Atlanta	218	338
Dallas	180	278
Houston	180	278

Source: IOA

But one major outdoor company, Foster & Kleiser, is announcing a lower increase, and is holding the line at 6%. The decision was made by the company's management group which met in mid-July in Los Angeles. The increase applies to painted bulletins and 30 sheet posters. Dean Jacobs, executive vice president, marketing, at Foster & Kleiser, explains, "We're gearing this increase to the consumer price index, which has been running at about 5%. We're adding one percent on top of that, a charge similar to the one mortgage companies levy on loans, to cover our own increased costs of doing business, in labor, energy and site rentals." Foster & Kleiser raised its prices in 1984 by 9.9%, Jacobs says.

By tying the price increase to the Consumer Price Index, Foster & Kleiser moves away from the traditional rationale for rate hikes: increased automotive traffic. Where in the past, car traffic was constantly on the rise as the number of U.S. auto registrations increased, automotive ownership and traffic have now topped out. "The general automotive flow is up about only 1%," says Jacobs. So outdoor advertisers won't be paying for additional audience delivery. But Jacobs notes that traffic patterns vary and some arteries have seen tremendous increases in traffic.

Some other plant operators are skeptical about Foster & Kleiser's reasons for holding the 1985 price increase to 6%. They believe that F&K is biting the bullet now because of excessive price increases in previous years. One plant operator said, "They just about priced themselves out of the market last year."

Gannett is coming in at the industry average, 8%, according to a company spokesman. But Gannett's prices will probably vary from market to market, according to labor and site costs. The spokesman also indicates that the increase is in line with estimates "of what the market will bear."

TDI/Winston will be raising prices an average of 8% for train and bus postings and for its outdoor sites as well. Sales director Helene Goldfarb said the rate increase is justified on the basis of increased costs of doing business. "We've been able to do this in the past and there's no reason why we can't do so now. Some companies do require a written explanation if the price increase

A CONVERSATION WITH BILL WILKINS

This question and answer report is with Bill Wilkins, president of the Institute of Outdoor Advertising.

Q. *What price increase can be expected in outdoor during 1985?*
A. We expect an 8% increase for the industry overall. That's about the same as 1984, when the increase was 8%, and considerably lower than 1983's 15.7% hike.

Q. *What are the major factors influencing outdoor price increases?*
A. For years, the average price increase was about 7% annually. But you know, our business is a very physical one. We have to lease property, and when you consider states such as California, where the value of property is doubling every five years, that puts a lot of pressure on outdoor companies. Landlords are negotiating a lot harder. And neighborhoods are changing. Areas that were previously suburban are now urban, which has changed property values. Consider areas in Southern California that were undeveloped that are now over-developed. Nonetheless, we still need to maintain coverage of those areas. There are also energy costs, which have increased, for gas, particularly, for trips to check the boards.

Q. *Does the cost of research add to the pricing of outdoor advertising?*
A. The Institute of Outdoor Advertising commissions and pays for advertising, promotion and research on the medium. This is funded by members of the Institute. About 92% of all outdoor operators are members of the IOA. The way we have the budget split up, 50% of member fees go for research, promotion and advertising. The other 50% goes for administration. One of our projects has been Audience Measurement by Market (AMMO), and most recently, we purchased Elliot Young's eye tracking study of how people look at outdoor boards. (That study was initially financed by two major outdoor advertisers, R.J. Reynolds Tobacco Company, and Brown & Williamson.) Perhaps we haven't done enough in the area of research. Most major agencies say we don't have enough, and it turns out they often aren't familiar with the research we have done.

Michael Mella

Q. *Will fiber optics become a cost efficient innovation in outdoor advertising?*
A. At the moment, no. The question is what do you do with a fiber optic board in the daytime? It doesn't show much in the daylight. It gives you no myriad of special effects. The idea is presently in the experimental phase. Ford and Chevrolet both have fiber optic boards up in Detroit, and one of them has a changing message. But overall I don't think the technology is being used to the maximum in advertising. I think advertisers need to ask themselves if fiber optics, at this point, are worth the investment.

goes over 10%, but 8% is reasonable," she contends. The actual increases will vary from market to market, from between 7% to 9%, she says.

While prices are steadily moving up the escalator in most forms of outdoor, mall advertising will be one major exception in 1985. That category has seen a 5% jump up during 1984. But Harry Domke, project manager for 3M national advertising, says there will be no increase for the facings in the 6,000 malls where 3M has panels. The price per facing, per month, on a 12 month basis, comes in at about $250.

3M is continuing to expand the number of facings available, and by the end of 1985 expects to be servicing panels in close to 7,000 shopping malls, including those in Hawaii, where no other form of outdoor is allowed.

Also holding the line on costs in 1985 is the Bruner News Networks, Dallas, an electronic news crawl with advertising adjacencies, which is available in student unions and dining commons on 480 college campuses across the country. Larry Markley, vice president of administration, believes the price will remain in the $2 to $5 cost-per-thousand range. Price of the buy depends on length and extent of the flight.

And even better news comes from Robert Keith & Co., San Diego, which produces large outdoor inflatables. Stan Mast, manager of sales services, says the price for an average 20 foot high bottle has come down from $4,500 in 1983, to about $3,900 this year. "We have no really set prices," Mast said. "The cost depends on complexity of shape, artwork, size and quantity. But overall, we've been able to decrease prices as we've gotten better at producing these."

And if anybody still wants to use Beetleboards, that is, Volkswagen bugs painted up with an advertising message, forget it, you can't do it at any price. The effort to transfer the medium to the VW Rabbit just didn't take. And the company, which tried and changed its name to Mobile Media, is no longer listed in either the Los Angeles or Dallas phone directory.

Fred Gardner

Cataloguers face expense explosion

Paper and postage costs are the big hurdles in 1985.

Direct marketers are looking ahead to an expensive year in 1985.

This suddenly burgeoning medium is facing mounting price pressures on four fronts. And a number of participants in direct marketing suggest that the four-pronged price onslaught will cause a shake-out, particularly among catalog marketers in 1985.

Direct marketers are wrestling with prospective price increases in the costs of mailing, the cost of paper, the cost of lists, and the cost of printing, not to mention the increased costs in broadcast and cable for advertisers who also use those two electronic media.

All those factors, averaged out, will yield a cost increase of between 12% and 15% in 1985 if all elements continue along current lines of trajectory.

The greatest increase faced by direct

SAMPLE DIRECT MAIL PACKAGE

COMPONENTS	COSTS PER 1000 (50M Quantity)			COSTS PER 1000 (250M Quantity)		
	1981	1982	1983	1981	1982	1983
1. Letter–4 pages/2 color 8½ x 11 (11 x 17) (60 lb. white)	$ 40.41	$ 36.10	$ 37.00*	$ 29.46	$ 25.88	$ 26.53*
2. Brochure–4 pages/4 color 8½ x 11 (11 x 17) (70 lb. text)	84.20	83.90	85.00*	55.28	51.80	53.10*
3. Order Card–2 color 5 x 7 (65 lb. cover index)	21.38	20.80	21.32*	11.49	14.00	14.35*
4. Reply Envelope–1 color 5½ x 7¼ (24 lb. white)	22.27	21.20	21.73*	18.05	15.56	15.95*
5. Outside Envelope–1 color 9 x 6 (24 lb. white)	29.72	27.93	28.63*	22.98	20.44	20.95*
6. Lettershop Charges–Per 1000	22.24	23.54	24.13*	19.48	19.73	20.22*
7. House List–50% of mailing Running costs per M	2.38	2.21	2.21	2.86	2.24	2.24
8. List Rental–50% of mailing Per 1000 (Selection costs included)	22.50	25.20	25.20	22.50	25.38	25.38
9. Merge/Purge–per M	6.47	6.11	6.11	5.38	5.90	5.90
10. Postage–(Fixed)	104.00	109.00	110.00	104.00	109.00	110.00
11. TOTAL PER M	$355.57	$355.99	$361.33	$291.48	$289.93	$294.62
		+.11%	+1.5%		–.53%	+1.6%

Source: Direct Marketing Association, Inc.
**Bureau of Labor Statistics Estimate, 1983.*

marketers is the rate hike proposed by the U.S. Postal Service. The USPS is proposing a 21.9% increase for third class business reply rates, and 19% average hikes in pre-sorted third class. The probable price increases for what gets mailed — paper — could run as high as 15%. Paper manufacturers say there will be a minimum of a 10% increase for coated free sheet, which is preferred by catalog marketers. But the increase could go as high as 15% if demand continues to rise faster than supply. List rental prices in the consumer segment of the market will go up between 7% and 12%, depending on base price. But on the business-to-business side, list rental prices are seen as holding firm. Printing and production costs are expected to go no higher than 6% and perhaps not even run up that substantial an increase.

Of primary concern to direct marketers is the proposed rate hike the Postal Service has placed before the Postal Rate Commission. It is the first increase the USPS has requested since 1981. This year, the USPS is asking a 3¢ hike in the first class rate, a 15% increase, and a higher average rate increase for third class (219%). Rates would go from 11¢ to 13.2¢ for presorted; from 9.3¢ to 11.1¢ if presorted to a five digit ZIP code; and from 7.4¢ to 9.5¢ for mail presorted by carrier route in bulk mailings. Single piece mailings would increase 5.6%.

The Direct Marketing Association is opposing the 21.9% third class bulk rate increases as proposed, and has argued before the rate commission that, "when proper costing and pricing principles are applied, the rate level for business response mail should not exceed 11.2¢, 8.4¢ and 6.3¢ per piece for the three pre-sort levels."

In defending the proposed rate restructuring, Postmaster General William F. Bolger has commented, "The Postal Service is not engaged in predatory pricing of third class mail. There are powerful forces who would never allow first class to bear more than its share of the burden." He contends that third class rates "reflect the full cost of delivery," and no more.

Just how the Postal Service sets rates is an extremely complex cost accounting procedure, according to Ashley Lyons, chief economist of the USPS.

A CONVERSATION WITH BILL MORRISSEY

Michael Mella

This question and answer report is with William R. Morrissey, general manager and chief operating officer of Ogilvy & Mather Direct.

Q. *It looks like Direct Marketing faces an escalation of costs on a number of fronts, namely, postage, paper, production and lists. How do you evaluate the importance of these increases?*

A. The postal issue is the major one confronting the industry, the one that is really staring us in the face. The other increases all appear to be pretty standard.

Q. *Paper prices aren't a big issue?*

A. Well, paper is the tight area, but the paper is there. There has been increased demand, especially for the coated grades, which we use a lot of. We use mostly 50 pound coated paper, and that market has always been tight.

Q. *What about letter and envelope paper?*

A. We don't see any problem with letter and envelope paper, either in supply or prices.

Q. *Getting back to the postage issue, do you think the proposed 21.9% third class increase will be approved by the Postal Rate Commission?*

A. Well, you have to remember that this is an election year, so there won't be any postage rate increase in 1984. When it comes, it will be no earlier than April of 1985.

Q. *Will the Postal Service get the increase it's looking for?*

A. No, I don't think it will. The whole thing is subject to negotiation. There are a lot of lettershop vendors who are lobbying in Washington on the rate issue.

Q. *Do the rates pose a particular problem for O&M Direct?*

A. While the postage rate increase is a major issue, it won't affect our list of clients as much as it would if we were a catalog company. For our clients, such as American Express, that's just part of the mix. We're also concerned about magazine rates and broadcast increases. But all of that does make it harder for direct marketing to pay out.

Q. *Will increased costs in postage and paper mean that you need a*

Continued on page 120

The process takes into account the costs of delivery per piece, and how much of the overall postal costs the third class rate should bear.

David Soskin, president of Soskin/Thompson, the JWT direct marketing affiliate, says he is disturbed by the pending increase in postage, and all the other cost escalations. "We're very concerned about the increases," he says. "The more the mail costs, and production and paper prices increase, the more responses you need to generate."

Rolf Meise, production manager at Soskin/Thompson, wants better guarantees for delivery of third class mail, and is particularly disturbed by the possibility of a Postal Service strike. There is talk of such a work stoppage around mid-December.

The outlook for paper prices in 1985 is not much better than that for postage rates. Increased demand and limited production capacity have forced up prices for better grades of coated stock, particularly coated free sheet, which most catalog mailers use in rapacious quantities. Paper company production of coated free sheet is now all on allocation.

A top sales executive at a leading paper company expects coated free sheet paper to increase its price in 1985 by between 5% and 10%. "Coated free sheet has been on allocation for the past 12 months, and there has been strong demand for the past 14 months," he observes. "With no additional plant capacity to come on line in 1985, we expect demand to remain strong unless there is a sharp economic downturn."

1985 price increases for direct marketers

Postage	+21.9%
Paper	+10-15%
Lists	+ 7-10%
Printing	+ 6%

Data: Decisions survey

The current going price for 50 pound coated freesheet is between $46 and $48 a hundred weight. A year ago the price was between $38 and $40 a hundred weight. The executive notes that while in the past 14 months the price for free sheet has shot up, he points out that averaged out since 1980, the price increase comes out to about 4% a year. From 1981 to 1983, demand for free sheet was stagnant.

One authoritative industry analysis projects a 10% price increase for better grades of coated and calendared stock, and a roll-off to 7% or 8% for uncoated grades of ground wood and grades that tend toward newsprint.

But direct marketers are still in a state of shock over the price increases that pounded the industry in 1984. They are prepared for the worst. Ray Slyper, vice president at cataloger Lillian Vernon, observed the two 7% increases in 1984 and sees more coming in 1985 — even after the third price boost hits in December of this year. "I don't expect that to change."

Jeff Haggin, manager of production and direct response at The Sharper Image, San Francisco, relates that in his contracts with Champion and Mead, for Northcoat and Javelin coated free sheet papers, he will be paying 5% increases in January and July.

Rolf Meise, at Soskin/Thompson, decries the paper price increases as "astronomical." But as the DM field has grown, he acknowledges that "coated free sheet for catalogs has been very much in demand." The only way to beat these increases, he believes, "is for a printer to buy a huge inventory of paper." But that route too, he rues, puts increased pressure on price and demand.

A number of factors, including supply and demand, are pushing paper prices sharply upward. The expansion of catalog marketing in the past year has affected prices, as has increased demand for coated stock by users of pre-printed inserts. The "1984-1985 Paper Availability Outlook" report by Strategic Futures, attributes a paper shortfall to a pair of causes: very limited increases in paper production capacity, and reduced imports from

TACOMA

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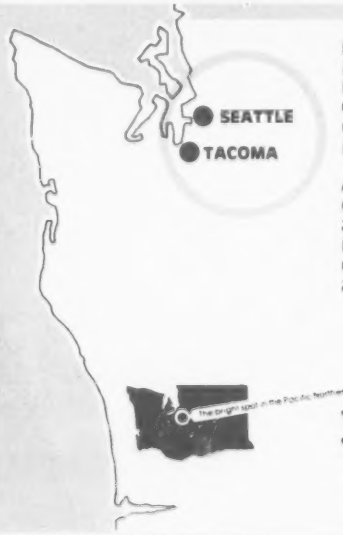

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foreign sources. In Europe, the increased use of heatset printing has caused heavy demand there for lightweight coated and super calendered offset grades of paper. Further price pressures on the U.S. market could come from the St. Regis/Champion merger. The pairing makes St. Regis/Champion the largest paper supplier.

There is less demand and price pressure on letter and envelope paper. Al Unger, vice president, operations, at the Frank Vos Company, says, "There is a plethora of those kinds of papers around. I don't see any lack of supply. The situation is nothing like that for the catalog paper. And like everything else, while the price for letter paper continues to go up, it doesn't seem to be going at the rate of inflation."

The brightest cost prospect for direct marketers in 1985 appears to be in printing and production. Direct marketing agency and catalog house executives see price increases in the 5% to 6% range, and those increases are mostly hinged to labor costs. Paul A. Moschetti, senior vice president, manufacturing, John Blair Marketing, expects manufacturing costs to be up 6% this year over 1983, and he pinpoints another 6% increase in 1985.

Jeff Haggin, at The Sharper Image, projects an average industry increase in the 5% to 6% range. He expects a 7% increase in his own contract negotiations, for renewal of a pact that had fallen below industry standards.

Frank Vos' Al Unger sees "printing prices as being pretty stable." Optimistically, he says, "I think prices will stay in line pretty much with 1984."

Soskin/Thompson's Meise sees competition between printing houses as keeping prices in line. "Of course, prices are high in New York," he allows, and notes that "a lot of people are going out of town to get their printing done."

The cost of expanding the number of people to send mailers and catalogs to will increase in 1985 by between 7% and 10% for the consumer market, but business lists will probably hold at 1984 prices. The costs of consumer lists range between $40 and $80 per thousand, depending on desirability and segmentation of the list.

Marge Fernbach, list manager at The List Works, Mt. Kisco, N.Y., says prices there will go up between 4% and 10%. But overall, the cost of each list goes up "normally about $5 a year." Fernbach explains that the increase is needed to "cover increases in postage, the value of the list, and the overall overhead and cost of doing business."

The expansion of catalog marketing in the past year has affected prices as has the increased demand for coated stock by users of pre-printed inserts.

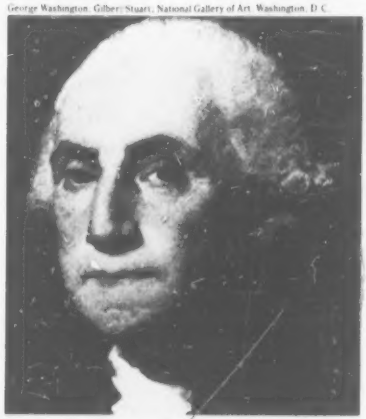
At The Sharper Image in San Francisco, the rental price of in-house lists is marching steadily upward. The Sharper Image sells its one million plus names for $85 a thousand. The price went up $5 the first of June and another $5 increase is anticipated on Jan. 1.

Ray Slyper, at Lillian Vernon, is taking a wait and see attitude toward list rental price increases. "I don't anticipate an increase in 1985, but it depends on what the field does. If the competition raises prices, we will too, but not exorbitantly. We don't want to be at the high end of the scale."

Bill Carney, vice president of National Business Lists, doesn't "anticipate an increase across the board on the basis of my perception of the market. In all probability, prices on business lists won't go up in 1985." National Business Lists has been selling names at $50 a thousand. But since the firm was acquired earlier this year by Market Data Retrieval, which sells names for $40 a thousand, a reduction in price could be in order. National sells seven million business names, and Market Data Retrieval has about 7.5 million middle management executive names.

Fred Gardner

George Washington. Gilbert Stuart. National Gallery of Art, Washington, D.C.



Would the winter he spent at Valley Forge have cost him a promotion in your company?

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CABLE

Continued from page 52

But the real success stories are *MTV* and *Nickelodeon* which have just been spun off together into a public company, MTV Networks, Inc. by their parent, Warner Amex Satellite Entertainment, Inc.

The two services earned $9 million on revenues of $46 million in the first six months of this year. In the first six months of this year, the service achieved an excess of $26 million in ad sales, more than double the total in the comparable period last year, and a striking increase from the $7 million in ad sales for all of 1982.

The number of *MTV* subscribers increased to over 16 million in 1983, which is up from 9 million in 1982. Currently, 21.8 million people are receiving the service.

The BAR-measured networks are also gaining by leaps and bounds. The total ad revenue gains for the first and second quarters this year for *CNN, ESPN, USA* and *WTBS* are up 24% over last year's comparable period. Currently, the BAR networks are running an average of $138 million in ad sales for the first and second quarter, compared with $112 million for that time last year.

With the enormous growth rate of the ad-supported networks, total cable billings are expected to exceed $5 billion by 1994, or a gross of $4.4 billion for ad-supported networks and $1.3 billion for local systems, according to Paul Kagan Associates. These estimates assume an annual growth rate of 50%-100% declining at the end of the decade to 20-25% per year.

Considering the successful precedent set by national advertisers who claim that cable is doing a lot for their business, other more cautious advertisers are bound to follow suit. Predicts Tony Hoffman, director of corporate finance for Cranlin and Company, "Advertisers who wouldn't write a check for anything that doesn't have a numbers rating attached to it will be using cable for specific marketing purposes. Cable will be known as the 'reach improver' in its next phase of development."

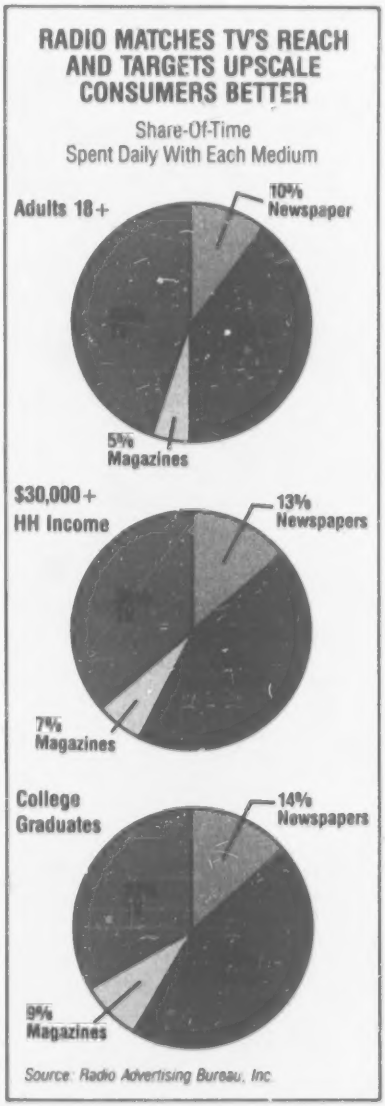
Judith Reitman

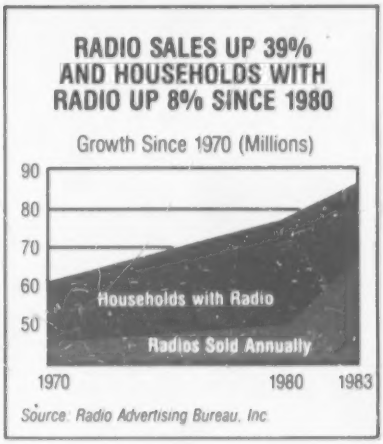
RADIO

Continued from page 56

media director at O&M. For example, the airline sponsors the New York Giants football games, and in St. Louis — a key market for TWA — professional hockey and baseball. It has similar arrangements in Boston and Los Angeles. Spot radio ads are used to reach an all-adult audience. American Express has used regular line network radio for its travelers checks over the past three years, placing the ads around five minute news programs. The goal is to reach upscale, educated adults in the 25-54 year-old age category.

Larry Cole, senior vice president and director of media services for O&M, considers radio network advertising a very efficient media option in terms of costs and results. However, he is not as favorably inclined toward spot because of a less appealing cost structure. "The real cost for local ads is designed to dissuade people from using the 30-second spot because its very high costs represent nearly 80% of a 60-second spot," he comments.





Rick Busciglio, who until recently was senior vice president and director of national broadcast for McCann-Erickson, attributes radio's upward pricing crawl to inflation and a supply and demand situation. To keep a lid on costs, McCann constantly reviews radio pricing and goes after the best buys. McCann's radio billings have been increasing at a 5% to 10% rate over the past few years, a pattern which should hold true in 1985.

In general, the agency is heartened by the results clients have been getting from network as well as local spot radio, particularly in efforts to reach the teenage and business markets. McCann has been using Westwood 1, in Los Angeles, which reaches 400 stations nationwide, for a sponsorship of 26 radio concerts aimed at teen listeners. Business audiences are garnered by utilizing spot and local all-talk programs. These areas represent a goodly chunk of McCann's buys. "The agency has gotten good efficiency at low comparative costs from radio," sums up Busciglio, "and let's face it, by using radio McCann can own a program like the radio concerts. No way that can be done elsewhere."

Joseph Dunn

importance to the planner who wants to know if he is reaching his target audience. But I think circulation CPM will increase in importance. It is the one thing that has been the most consistent and most honest.

Q. *Does it make a difference in media buying that the two services, SMRB and MRI, who measure audience numbers, do not agree on the final figures?*

A. Really, often the problem with magazines are not the audiences. The question is how you exploit the virtues of each medium the best. It's a creative consideration. It's a media consideration. But in more cases than not, it's a creative problem in that the advertiser and the agency are not familiar with, or aren't capable for some reason, to develop the proper print.

Print is still very often a stepchild to major broadcast media. It's got its own merits and values. But certain advertisers have to use television or broadcast alternatives. Reader involvement is the discriminating factor in magazines.

Q. *Does it end up hurting magazines that there is so much quantification available about them that doesn't exist with television?*

A. Both from the costs of doing business, to the circulation statements to the audience statements there's an awful lot of information that the advertiser has at his disposal to pick apart magazines. In a sense, it's unfair because they have the most information to back up the decision to buy the medium but that becomes a double-edged sword. The same information is going to be used against them. The pressures on magazines are going to continue very seriously. While we are sensitive to magazines' costs, it's our job to make sure that we don't stop them from making a profit, nor to allow our clients to pay too much money for any media vehicle.

Marsteller: *continued from page 78*

government. But you can't sell the B-1 bomber only by advertising to the Pentagon. You've got to sell the B-1 to Congress and to the people. That's a broader message than before.

This is what accounts for the increase in advertising in the general business press. But that doesn't mean that all of it is good. Look at the advertising that TRW, a highly specialized diversified manufacturer, is doing on television. They must have spent at least several million dollars on that campaign, "a company called TRW," for no reason. Their stock is closely held, and their sales are to a limited number of companies — they have no reason to do corporate advertising.

Q. *Since the economists have at last agreed on one thing — that we are in a boom year — might we expect that general prosperity would hold cost increases down?*

A. Well, yes, but that has not been borne out historically. When business is good, and sales are good, there is tendency to think that ad budgets are freer. And the media are more confident about increasing their rates. They're nervous about it when it's a tight market. This adds up to greater increases in media — though it doesn't mean that's justified. In fact, often it's most justifiable at the point when it can't be put into effect, because the market would simply resist.

Q. *Returning to your point on consolidation. One would assume that the health of a particular sector has a large effect on the health of the business press serving that sector. Is that true?*

A. Yes, very definitely, the health of the business press is tied to the health of the industry. In a stagnant industry — such as mining or petroleum — there are bound to be fewer magazines than there were 20 years ago, when the petroleum industry, for example, was booming, and there was a magazine for every conceivable subdivision.

Frankly, I would not want to be a single industry publisher at this point. These days, it doesn't matter what industry you're talking about, whether it's computers or steel, being a single industry publisher is like being a one product manufacturer. The times are too difficult for that. And it's a very precarious position to be in.

Some ABP projections

Ad Pages			
1983	1984	1985	1986
100.0	107.6	111.4	113.0
Ad Revenue			
100.0	115.29	124.80	131.65

Source: John DeWolf, Cahner's Economic Department, for the ABP

nouncements of cost increases so that they can book the fourth quarter."

Borg-Warner, the chemical and industrial products giant, uses the business press in a similar way, according to Kathleen Witowski, advertising manager. The general business press, she says, "is the only way we can go for our corporate advertising — our target audience is the typical corporate one." The +$1 million corporate advertising budget does talk about the company's products, but "it's not a product selling campaign." Witowski notes that each division does its product advertising independently, setting its own ad budget in proportion to sales. "The schedules are always changing," she says, "depending on the kind of year they've had."

Advertisers and agencies alike seem unconcerned about the projected cost increases. As Carla Loffredo at Marsteller explains, "The rates aren't really increasing that much — not enough to make us look for alternatives. If they were going up 20% or 25%, that would be different. Their rate increases," she says, "aren't going to be as drastic as they have been in the past."

Laura Konrad Jereski